State of Montana
Office of the Legislative Auditor

REPORT TO THE LEGISLATURE

Report on Examination of Financial Statements
Two Fiscal Years Ended June 30, 1980

DEPARTMENT OF HIGHWAYS

The state's General Fund lost up to $1.6 million in interest income during the last two years because the department was not promptly obtaining agreements for federal aid projects.

The department should reorganize its Equipment Bureau as part of its Maintenance Division to promote efficient, effective department operations.

This report contains 26 recommendations for improvement of the department's operations, including recommendations relating to:

- financial district laws
- accounting procedures
- equipment and motor pool rental rates
- stores inventories and inventory procedures

Office of the Legislative Auditor
Room 135, State Capitol
Helena, Montana 59620

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DEPARTMENT OF HIGHWAYS
STATE HIGHWAY COMMISSION

		Term Expires
George Vucanovich, Chairman	Helena	1983
William M. Kessner, Vice Chairman	Great Falls	1981
John S. Cote	Butte	1981
David A. McNally	Billings	1981
Baxter Larson	Wolf Point	1983

ADMINISTRATIVE OFFICIALS

Gary Wicks	Director Department of Highways
John L. Prebil	Administrator Centralized Services Division
W.D. LeRoux	Secretary to the State Highway Commission

SUMMARY OF RECOMMENDATIONS

As a separate section in the front of each audit report we include a listing of all recommendations together with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply thereto and also as a ready reference to the supporting comments. The full replies of the Department of Highways and the Department of Administration are included in the back of this report.

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Agency Reply: Concur. See page 70.

8.B Calculate rental rate charges recovering prior gains and/or losses on a per class basis. 25

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Agency Reply: Do not concur. See page 71.

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Agency Reply: Concur. See page 73.

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Agency Reply: Concur. See page 73.

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Agency Reply: Concur. See page 73.

INTRODUCTION

We performed a financial compliance audit of the Montana Department of Highways for fiscal years ended June 30, 1979 and June 30, 1980. During this period, the Federal Highway Administration conducted reviews of federally funded department activities.

The last audit of the department was performed by the Office of the Legislative Auditor for the two fiscal years ended June 30, 1978.

The department director and administrator of the centralized services division have indicated that they have already complied with a number of the recommendations in this report and that corrective action has been initiated on other recommendations.

We thank the director, the administrator, and the department staff for their cooperation and assistance during the audit.

GENERAL

The Department of Highways was created in its present form by the Executive Reorganization Act of 1971. The department is responsible for the planning, layout, construction, improvement, repair, and maintenance of state highways and federal aid system highways.

The director of the Department of Highways is appointed by the Governor and serves as department head. Certain actions of the department are subject to the approval of the State Highway Commission, a five-member board appointed by the Governor. The commission is responsible for the designation of federal aid highways, primary highways, and off-system highways in the state

maintenance system. The Highway Commission may delegate functions to the director of the Department of Highways.

The department has 2,055 employees and expended approximately $139,237,000 in fiscal year 1978-79 and $186,458,000 in fiscal year 1979-80 to carry out its various programs. Total revenue was approximately $160,971,000 in fiscal year 1978-79 and $202,053,000 in fiscal year 1979-80. The charts on pages 4-7 illustrate the nature of expenditures and the sources of revenue for the department.

The department's activities are organized under the eight divisions listed below, each headed by an administrator.

1. Centralized Services
2. Personnel and Civil Rights
3. Legal
4. Engineering
5. Equipment and Motor Pool
6. Maintenance
7. Gross Vehicle Weight
8. Public Affairs and Tourism

The department also maintains the following three units, each headed by a manager who reports directly to the director.

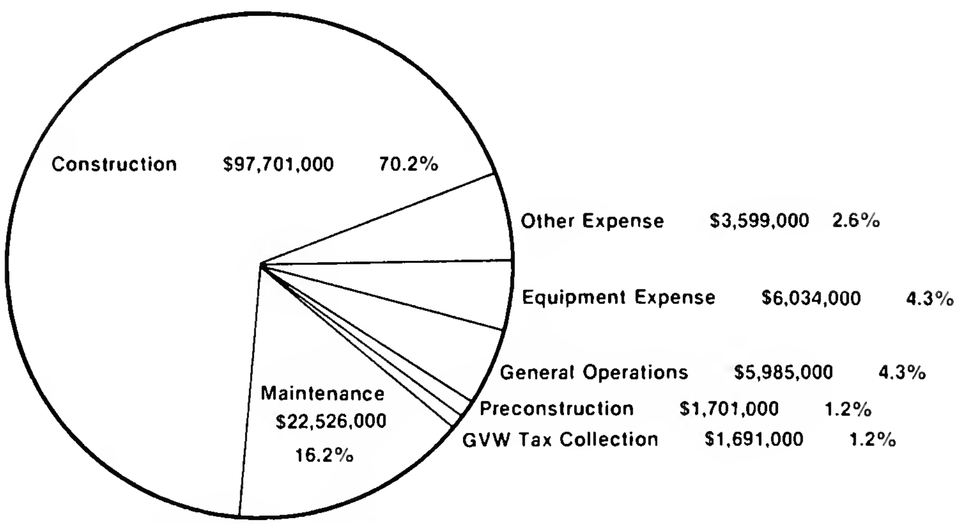
1. Information

2. Audit

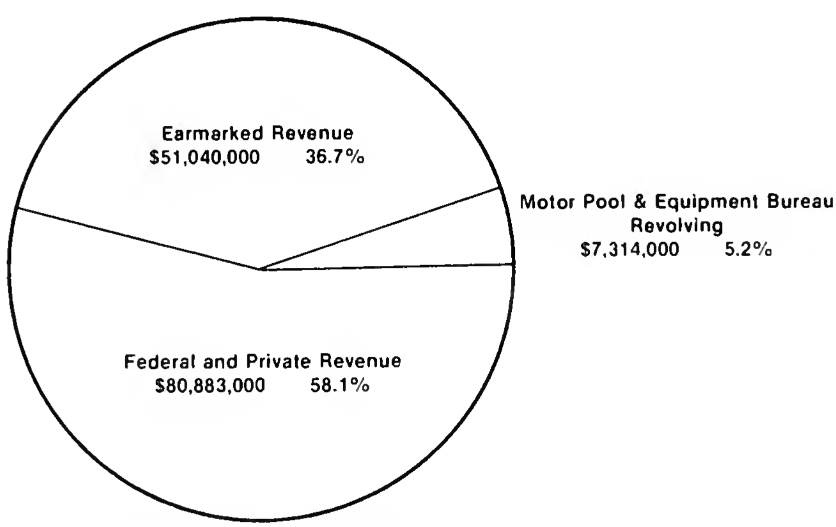
3. Aircraft

The following report sections discuss areas of concern noted during our audit of the department.

DEPARTMENT OF HIGHWAYS
EXPENDITURES BY OBJECT AND FUND
FISCAL YEAR ENDED 1978-79



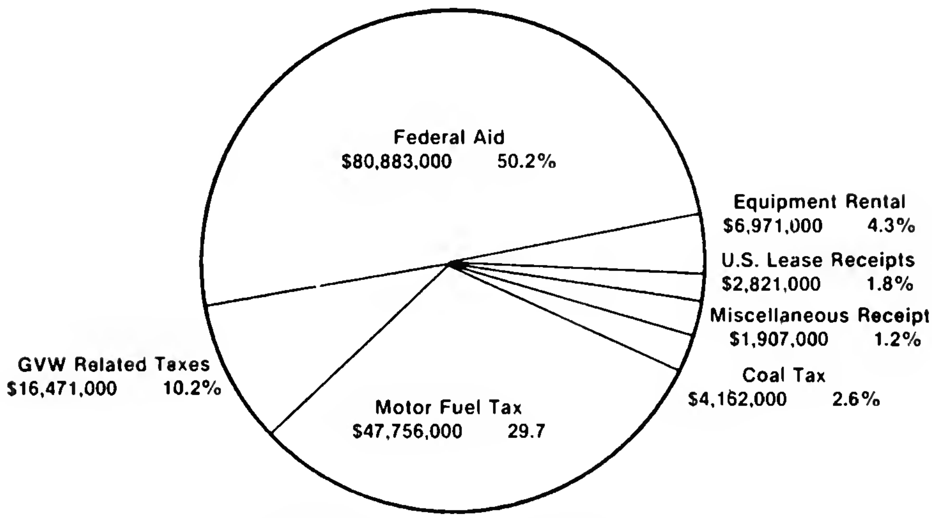
EXPENDITURES BY OBJECT — $139,237,000



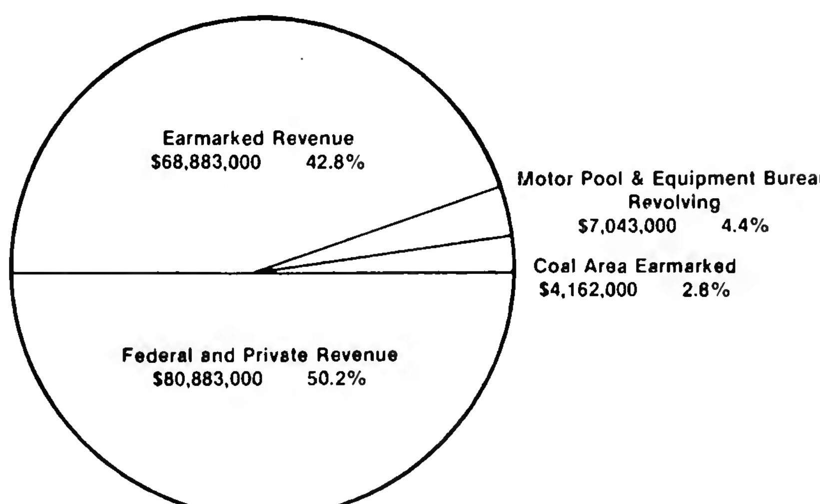
EXPENDITURES BY FUND — $139,237,000

SOURCE Compiled by the Office of the Legislative Auditor

DEPARTMENT OF HIGHWAYS
REVENUES BY SOURCE AND FUND
FISCAL YEAR ENDED 1978-79



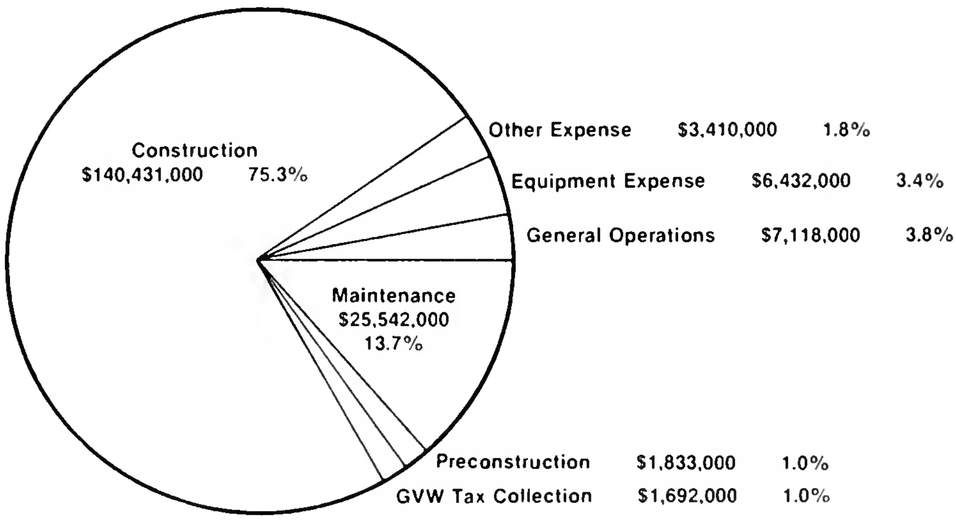
REVENUES BY SOURCE — $160,971,000



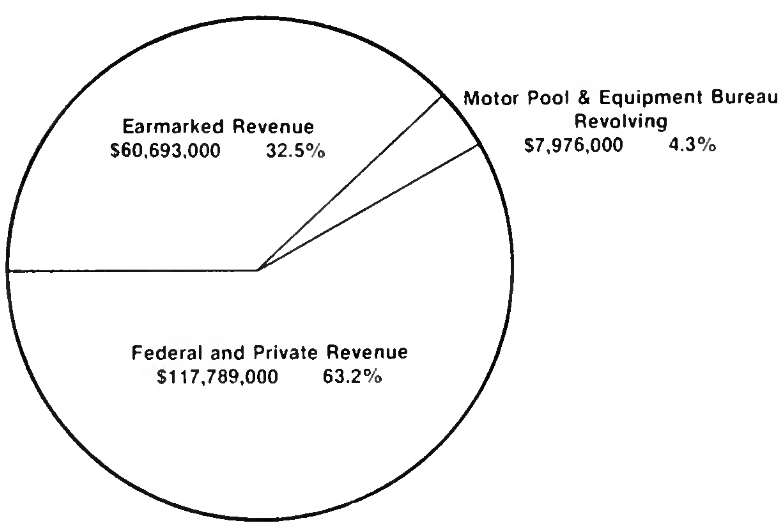
REVENUES BY FUND — $160,971,000

SOURCE Compiled by the Office of the Legislative Auditor

DEPARTMENT OF HIGHWAYS
EXPENDITURES BY OBJECT AND FUND
FISCAL YEAR ENDED 1979-80



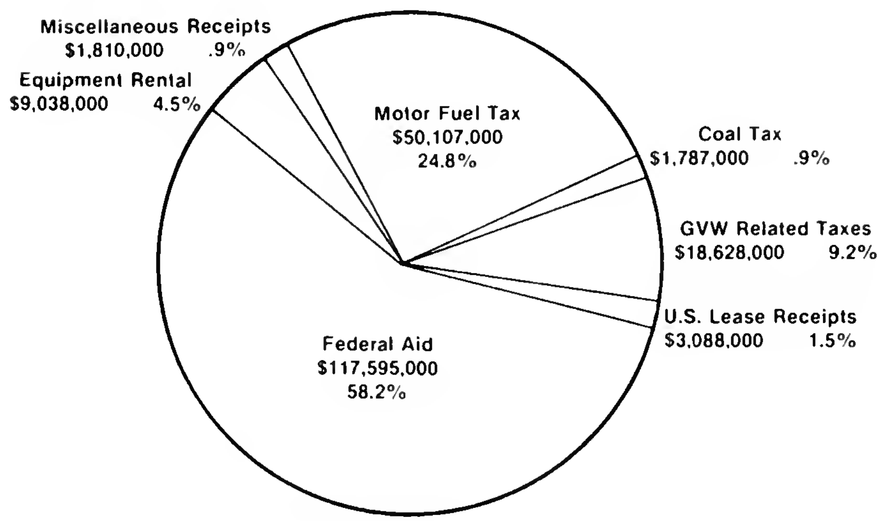
EXPENDITURES BY OBJECT — $186,458,000



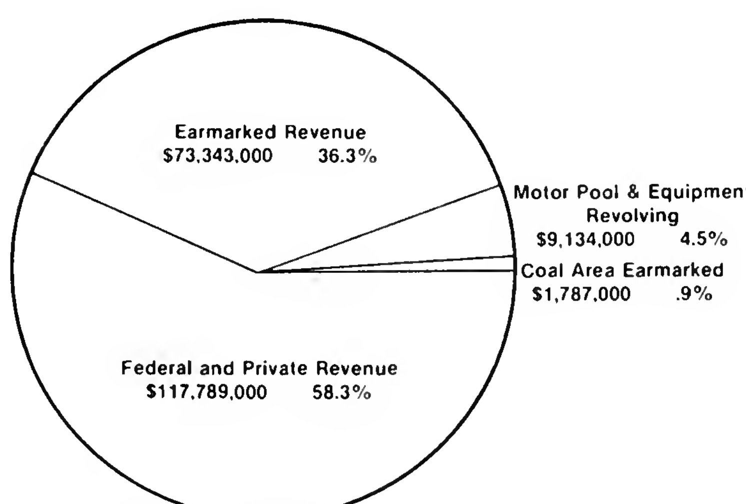
EXPENDITURES BY FUND — $186,458,000

SOURCE Compiled by the Office of the Legislative Auditor

DEPARTMENT OF HIGHWAYS
REVENUES BY SOURCE AND FUND
FISCAL YEAR ENDED 1979-80



REVENUES BY SOURCE — $202,053,000



REVENUES BY FUND — $202,053,000

SOURCE Compiled by the Office of the Legislative Auditor

CONSTRUCTION

Highway construction, which is the largest expenditure category in the department, accounts for between 70 and 75 percent of total expenditures. The department expended approximately $98,000,000 during fiscal year 1978-79 and approximately $140,500,000 during fiscal year 1979-80 for expenditures related to highway construction activity. These amounts were incurred in the construction of interstate, primary, and secondary roadways.

Construction is classified, for budget purposes, as two separate programs - preconstruction and construction. Preconstruction includes all the activity or costs associated with the location and design of roads and structures and the acquisition of right-of-way. It includes all the preliminary activity up to the date of the contract award. Upon award of the contract, the construction phase begins. The construction phase represents work by private contractors and contract supervision and field engineering activities by department employees.

Construction expenditures are incurred in six areas within the two programs.

Preconstruction

1. Preliminary Engineering
2. Planning and Research
3. Right-of-Way

Construction

4. Utility Relocations
5. Construction Supervision
6. Construction Contracts

The department receives federal matching funds to finance construction. The federal matching funds have different participating rates depending upon the particular road system involved. The principal participating rates during our audit period were:

1. Interstate system - 91.21 percent federal ratio applied to total cost.
2. Other systems - Primary, Secondary, and Urban System - 78.35 percent federal funding ratio.

In addition to these rates, various rates are established for costs incurred on other federal aid programs such as forest highways or federal public land roads which are either 90 or 100 percent federally funded.

<u>Project Overruns and Nonagreements</u>

The state's General Fund lost up to $1,620,000 in interest income during the last two years because the department was not promptly obtaining agreements for federal aid projects. On certain federal aid projects, the department incurs project costs exceeding federal agreement amounts and costs for which federal agreements have yet to be obtained. These project overrun and nonagreement costs, pending federal agreement, must be paid from state funds. Federal agreement amendments are generally approved, but the department must request them. Once a project increase is granted, the department bills the federal government for the federal portion of the accumulated costs.

The department is not timely in requesting project amendments and often projects in overrun status will be carried over

from one fiscal year to another. As reported by a Federal Highway Administration (FHWA) report dated September 23, 1980, there were 446 completed projects with billed costs totalling approximately $15.2 million as of March 31, 1980. The following table details these projects by calendar year.

AGE OF COMPLETED PROJECTS FOR WHICH NO FINAL BILLING WAS PREPARED

Projects Completed by Calendar Year		Total Projects March 31, 1980
Prior to	1976	47
	1977	57
	1978	59
	1979	243
	1980	40
Total Projects by Year		446

Table 1

Source: Report on Audit of the Montana Department of Highways Project Closing and Vouchering Procedures, Federal Highway Administration, Issued September 23, 1980, p. 4.

As noted in our prior audit report, the department has no written procedures describing responsibility or action necessary to bill for projects in overrun or nonagreement status. Overrun and nonagreement project reports for 1980 reflected an average increase of $4,000,000 since our last report in expended but unbillable project costs. The 1980 overrun and nonagreement project reports indicate a monthly average of $9,000,000 expended on federal aid projects in excess of project agreements.

RECOMMENDATION #1

WE RECOMMEND THE DEPARTMENT IMPLEMENT PROCEDURES TO PROMPTLY AMEND OR OBTAIN AGREEMENTS FOR FEDERAL AID PROJECTS IN OVERRUN OR NONAGREEMENT STATUS.

Financial District Law

The state is divided into 12 financial districts for the purpose of allocating funds for highway construction projects. The department allocates available state money to these districts to match federal aid available for interstate, primary, secondary, and other road systems. State law requires that these allocations be based on various factors, including percentage of road system completed, population, and land value. The available money is then obligated and spent within the districts.

--Allocation Methods

The department currently allocates funds to the financial districts based on obligational authority rather than actual expenditures as the statutes specify. Section 60-3-210, MCA, states:

> (1) The department may increase the expenditures made in a financial district to the extent of:
>
> a) 25 percent more than the amount of money allocated to the district in the latest year for the federal-aid primary system or the federal-aid secondary system;
>
> b) 300 percent more than the amount of money allocated to the district in the latest year for the federal-aid interstate highway system.
>
> (2) The allocation of available state construction funds to a district for the next succeeding fiscal year shall be decreased by an amount equal to any increased expenditures.

According to department officials, the department, since adoption of the financial district laws in 1965, has always prepared the reports based on obligations. Department officials stated that allocations based on expenditures are not feasible because total actual expenditures are unknown until a project is closed. Allocations based on obligational authority permit reviews of construction project overruns and modifications.

Department personnel have stated they intend to propose legislation to allow financial district allocations to be based on obligational authority rather than actual expenditures.

--Metropolitan Transportation Areas

The financial district laws do not provide for fund allocations to metropolitan transportation areas. Metropolitan transportation areas (MTAs) are areas including cities with a population of 50,000 or greater. Billings and Great Falls are presently the only MTAs in the state. The Federal Highway Administration (FHWA) recognizes MTAs and provides funding to maintain and improve transportation within these areas. The department has been receiving these funds since 1974. The department allocated approximately $241,000 and $339,000 in federal and state funds to MTAs in fiscal years 1978-79 and 1979-80, respectively. These MTA allocations were based on the financial district laws pertaining to urban areas.

Section 60-3-212, MCA, delegates to the department the authority to develop allocation formulas between legislative sessions to match federal-aid funds not specifically enumerated in the financial district laws. This statute states that "such formulas

shall be valid only until approved, modified, or rejected by the next legislative session." Although MTA funds have been received since 1974, the department has not fulfilled its responsibility to seek legislative direction regarding the MTA allocation formula. As a result, we were not able to determine if funds were allocated according to legislative intent.

--Rural Population

One factor used for allocating funds to the federal-aid secondary system within the financial districts is rural population. Section 60-3-206, MCA, defines rural population as the "total population less the population in cities over 5,000 persons and their unincorporated fringe urban areas as reported in the latest federal census." The census figures do not report unincorporated fringe urban areas. As a result, the total population less the population of incorporated citites over 5,000 is used in determining rural population. The department should seek clarification of the financial district laws for rural area allocations.

RECOMMENDATION #2

WE RECOMMEND THE DEPARTMENT:

A. SEEK LEGISLATION TO ALLOCATE FINANCIAL DISTRICT FUNDS BASED ON OBLIGATIONAL AUTHORITY RATHER THAN ACTUAL EXPENDITURES.

B. COMPLY WITH STATE LAW BY SEEKING LEGISLATIVE DIRECTION FOR METROPOLITAN TRANSPORTATION AREA FUNDING ALLOCATIONS.

C. SEEK LEGISLATION FOR CLARIFICATION OF THE FINANCIAL DISTRICT LAWS FOR RURAL AREA ALLOCATIONS.

City/County Construction Fund

Prior to 1974, the Department of Highways made distributions, as required by law, of gasoline license taxes directly to cities and counties. Cities and counties used these moneys exclusively for construction, maintenance, and repair of local streets and roads. The 1974 Legislature amended the statutes to provide for distribution of these moneys directly from the state treasury to the cities and counties.

The legislature made no provisions for distribution of the remaining moneys held by the department. These moneys cannot be distributed unless requested by the cities/counties for specific street or road projects. As of June 30, 1980, the department's city/county construction fund had a carry-over cash balance of $53,244. This fund balance represents an average distribution of $6,656 to eight cities. All moneys available for county distribution have been distributed.

Because no provisions were made for distribution of the remaining moneys when the law changed, the department is faced with administrative and bookkeeping responsibilities for this fund. Distribution of the remaining city/county construction fund moneys to the appropriate cities and closure of this fund would eliminate the department's involvement in this program.

RECOMMENDATION #3

WE RECOMMEND THE DEPARTMENT SEEK LEGISLATION TO ALLOW DISTRIBUTION OF THE REMAINING CITY/COUNTY CONSTRUCTION MONEYS.

Contractor Prequalification

Two organizations, the Department of Highways and the bonding companies, perform reviews of the contractor's financial condition before awarding state construction contracts.

Currently, the department requires contractors bidding on state construction projects to submit prequalification statements. These statements detail the contractor's experience and financial background. The department's prequalification board then performs a review, similar to a bonding company's review of these statements, and determines the size of job on which the contractor may bid. In addition to the prequalification statement and review, section 18-2-201, MCA, requires contractors performing work for the state to be bonded. The bonding company's review includes an analysis of the contractor's financial statements, auditor's report, the firm's size, and the job on which the contractor proposes to bid.

Because of the state's bonding requirement, we question the need for prequalification requirements. We consulted personnel from the department, the Department of Administration's Architecture and Engineering Division, and bonding companies. They also questioned the need for contractor prequalification.

Department personnel estimate the prequalification board expends approximately $5,700 a year. Besides these administrative costs, the contractors incur costs, not measurable, relating to the duplicate reviews for awarding state construction contracts. Elimination of the department's contractor prequalification requirements would reduce the administrative procedures and costs in awarding state construction contracts.

RECOMMENDATION #4

WE RECOMMEND THE DEPARTMENT ELIMINATE CONTRACTOR PREQUALIFICATION REQUIREMENTS.

ACCOUNTABILITY TO THE LEGISLATURE

Section 17-1-102, MCA, provides that "the department (of administration) shall prescribe and install uniform accounting and reporting for all state agencies. . . ." The Statewide Budgeting and Accounting System (SBAS) is that uniform accounting system. SBAS is an automated, general ledger accounting system supported by subsidiary ledgers and transaction detail records. SBAS is designed to meet the common needs of all state agencies and to provide a uniform accounting link between all state agencies, making it possible for the legislature, the Governor, and all other interested parties to accumulate and compare financial data for all state agencies.

During our audit period, the department used its own cost accounting system as its primary accounting record. The department's accounting system consists of a mixture of computerized accounting records and a hand-kept general ledger.

In our prior audit report, we recommended that the department adopt SBAS as its primary accounting system. On May 1, 1980, after expending considerable time and effort, the department began using SBAS as its primary accounting system for general ledger activity. The department still utilizes its cost accounting system for accumulating and billing construction costs and detailing vehicle expenses and earnings.

The following table illustrates the asset/liability comparison of the Department of Highways' general ledger with corresponding SBAS accounts as of June 30, 1980. The fixed assets and accumulated depreciation of the Motor Pool and Equipment Bureau are excluded from this table. These assets are recorded on the Property Accountability Management System (PAMS). As indicated by the table, the department has not recorded approximately 8 percent of its assets and 6 percent of its liabilities on SBAS. Most differences between the Department of Highways' general ledger and SBAS are attributed to timing differences and financial statement adjustments made on the hand-kept general ledger and not on SBAS. Subsequent to our comparative review, the department has reconciled their hand-kept general ledger to SBAS.

COMPARISON OF ASSETS/LIABILITIES
PER THE DEPARTMENT OF HIGHWAYS' GENERAL LEDGER WITH SBAS
JUNE 30, 1980

Fund	General Ledger Amount	SBAS Amount	Difference	Percent Over (Under)
Earmarked Revenue				
Assets	$ 54,167,644	$ 55,699,330	$(1,531,686)	(2.8)
Liabilities	2,931,299	2,757,713	173,586	5.9
Coal Area Earmarked				
Assets	$ 15,117,191	$ 15,117,191	$ -0-	-0-
Liabilities	-0-	-0-	-0-	-0-
Federal and Private Revenue				
Assets	$ 35,794,147	$ 42,589,527	$(6,795,380)	(19.0)
Liabilities	35,794,147	40,314,127	(4,519,980)	(12.6)
Motor Pool Revolving				
Assets	$ 168,303	$ 299,382	$ (131,079)	(77.9)
Liabilities	122,829	122,698	131	.1
Equipment Bureau Revolving				
Assets	$ 4,082,708	$ 4,253,326	$ (170,618)	(4.2)
Liabilities	895,633	895,148	485	.1
Woodville Highway Agency				
Assets	$ 1,768,124	$ 1,768,124	-0-	-0-
Liabilities	1,768,124	-0-	1,768,124	100.0
Highway GVW Agency				
Assets	$ 564,192	$ 558,167	$ 6,025	1.1
Liabilities	564,192	540,972	23,220	4.1
Outdoor Sign				
Assets	$ -0-	$ 3,461	$ (3,461)	(100.0)
Liabilities	-0-	2,297	(2,297)	(100.0)
Total by Fund				
Assets	$111,662,309	$120,288,508	$(8,626,199)	(7.7)
Liabilities	42,076,224	44,632,955	(2,556,731)	(6.1)

Table 2

Source: Compiled by the Office of the Legislative Auditor

Recording this percentage of assets and liabilities on SBAS represents significant improvement since our last audit. We encourage the department to continue using SBAS as its primary accounting system for general ledger activity and to adopt the full use of SBAS for its primary accounting systems.

Inventory Purchases Without Appropriation Control

In implementing the OLA prior audit recommendation to adopt SBAS as the department's primary accounting system, department personnel recorded expendable supplies inventories on SBAS. Because SBAS is not designed to maintain appropriation control for asset accounts, the department is making inventory purchases through the Earmarked Revenue Fund without charging an appropriation. Section 17-8-101, MCA, requires that "monies deposited in the general fund, the earmarked revenue fund, and the federal and private revenue fund . . . shall be paid out of the treasury only on an appropriation by law."

Recognizing that inventory purchases were being made without appropriation controls, department personnel discussed this situation with officials from the Department of Administration and the Office of Budget and Program Planning. To maintain budgetary control for inventory purchases, department personnel are sending monthly budget reports to the Office of Budget and Program Planning.

Department of Administration officials plan to develop appropriation control for asset accounts by July 1, 1981. Full implementation of this concept may require legislation.

RECOMMENDATION #5

WE RECOMMEND THE DEPARTMENT OF ADMINISTRATION DEVELOP APPROPRIATION CONTROL OF ASSET ACCOUNTS ON SBAS.

FINANCIAL STATEMENT ADJUSTMENTS AND ACCOUNTING PROCEDURES

In our audit testing, we found accounting and reporting procedures which resulted in financial statement adjustments and misstatements.

Financial Statement Adjustments

We commend the department personnel for their efforts in implementing accounting procedures and adjusting financial statements to ensure fair financial statement presentation. Based on our prior audit recommendations, department personnel corrected accounting procedures relating to state construction costs, federal aid receivables, accounts receivable receipts, revenue classification, and asset disposal.

As described below, certain other accounting procedures have not been corrected, even though the financial statements have been adjusted to correct the related misstatements. Some of these financial statement adjustments relate to accounting procedural problems noted in our prior audit report.

1. Construction Expenditure Accrual - Construction expenditures for contractor claims were not accrued in compliance with generally accepted accounting principles. Fiscal year 1978-79 expenditures were understated by approximately $3,179,000 in the Federal and Private Revenue Fund and $561,000 in the Earmarked Revenue Fund. Expenditures in fiscal year 1979-80 were overstated by approximately $1,975,000 in the Federal and Private Revenue Fund and

$348,000 in the Earmarked Revenue Fund. The financial statements for fiscal years 1978-79 and 1979-80 were adjusted by department personnel to reflect these accruals. Department personnel have also indicated that they will adopt procedures to properly accrue construction expenditures at year-end.

These construction expenditures were not accrued in accordance with generally accepted accounting principles because of the department's interpretation of section 17-7-302, MCA. Department personnel believed this statute, pertaining to encumbrances of fiscal year-end obligations, exempted the accrual of construction expenditures. Even though department personnel interpreted the statutes to exempt accrual of construction expenditures, generally accepted accounting principles require the accrual of these expenditures.

2. Revenue Accruals - To match revenues and expenditures, the department should accrue all revenues susceptible to accrual in accordance with generally accepted accounting principles (GAAP). GAAP and state accounting policy, Management Memo 2-79-3A, require that revenues be recognized in the accounting period in which they become both measurable and available to finance expenditures of the period.

The Department of Highways receives federal reimbursement for an agreed upon percentage of highway construction costs. Revenue should be recognized when costs eligible for reimbursement are incurred. In fiscal years 1978-79 and 1979-80, the department recognized revenue in accordance with generally accepted accounting principles except for revenues relating to the non-accrual of construction expenditures. Because the department did not properly recognize revenues in fiscal year 1977-78, fiscal year 1978-79 revenues are overstated. The department's financial statements were adjusted for these errors.

Based on the interpretation of a prior audit recommendation, the department established a revenue accrual in the Earmarked Revenue Fund for unbilled expenses incurred on incomplete projects. The department's interpretation is not in accordance with generally accepted accounting principles which require that revenue be recognized when an item is measurable and a valid receivable exists. Because of this error, revenue is overstated by $414,420 in fiscal year 1979-80.

3. Department of Highways' Headquarters Building - The new Department of Highways' headquarters building was not recorded on the department's books as of June 30, 1979 or 1980. During the construction phase in fiscal year 1975-76, the department recorded the bonds payable and related work-in-progress for the building on their records. Based on an audit recommendation that the building construction activity be recorded on the Department of Administration, Architecture

and Engineering Division records, the department removed the bonds payable and related work in progress accounts from their records. Because construction is substantially complete, the department is the sole occupant of the building and makes the bond payments from earmarked gas tax revenues, this building and the corresponding bonds payable should be recorded as a department asset and liability, respectively.

The department adjusted their 1979-80 financial statements to reflect the $7.2 million building in the General Fixed Asset Group of Accounts and the corresponding bonds payable in the Long-term Debt Group of Accounts.

RECOMMENDATION #6

WE RECOMMEND THE DEPARTMENT:

A. ACCRUE EXPENDITURES AND REVENUES IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.

B. RECORD THE DEPARTMENT HEADQUARTERS BUILDING AND CORRESPONDING BONDS PAYABLE ON ITS ACCOUNTING RECORDS.

Disaster Cost Recognition

Accounting procedures currently used by the department do not provide for recognition of disaster costs in the proper year. As noted in two previous audits, the recognition of disaster costs is not determined on a timely basis. These costs are recorded in a holding account pending federal reimbursement. The costs accumulated in the holding account during one fiscal period may be transferred from the holding account and recorded as an expense in a subsequent period. Based on our discussions with department officials, we determined that disaster costs and revenue, if any, from federal participation in these costs should be recognized in the Highway Earmarked Revenue Fund.

Expenditures in fiscal year 1978-79 are overstated by $154,035 and $3,785 in the Federal and Private Revenue Fund and the Highway Earmarked Revenue Fund, respectively. Because there was no federal participation in disaster costs in fiscal year 1979-80, there is no financial statement effect in that year.

RECOMMENDATION #7

WE RECOMMEND THE DEPARTMENT RECOGNIZE DISASTER COSTS IN THE PROPER FUND AS THEY ARE INCURRED.

EQUIPMENT AND MOTOR POOL DIVISION

The Department of Highways, through its Motor Pool Unit, is the custodian of all motor vehicles operating from Helena which are rated less than three quarters of a ton gross vehicle weight. The department also maintains a fleet of equipment under the Equipment Bureau. This equipment is assigned to 11 divisions throughout the state for state highway department use.

The costs of operating the Motor Pool Unit and the Equipment Bureau are recovered by rental rates charged to the user based on the average actual operating costs for each type (class) of equipment. The Motor Pool currently maintains 8 classes of vehicles and the Equipment Bureau maintains 50 classes of equipment. The Motor Pool and Equipment Bureau operate as internal service funds.

Rental Rate Review

Periodic reviews of rental rate factors by department personnel and making appropriate adjustments would ensure cost recovery by

vehicle class and mathematical accuracy of rates. Because department personnel did not adequately review published rental rate calculations, errors, as described in the following paragraphs, occurred.

In fiscal year 1978-79, the department intended to add a 6 percent surcharge to all Equipment Bureau rental rates. However, because of improper review, the rental rates actually used reflected a 7 percent surcharge. This error resulted in user overcharges of $60,822. Five similar errors also occurred in fiscal year 1979-80.

Effective January 1980, in an attempt to comply with our prior audit recommendations, the Motor Pool rental rates for all classes included a $.002 charge per mile to recover prior year losses. We noted two problems associated with this charge. First, the charge to recover prior year gains or losses should be calculated for each individual class rather than being applied for all classes. The individual class charge should be based on the accumulated historical gain or loss for that class. Department officials informed us that the July 1, 1980 rate schedules include the gains or losses by vehicle class. Secondly, the department did not use the correct accumulated loss figure for the Motor Pool or Equipment Bureau to calculate the per mile or per hour charge for prior loss recovery. This error resulted in lost revenues to the Motor Pool of $4,164. It was not feasible to determine the effect of this error on Equipment Bureau revenues.

Currently, department policies require an annual review of Motor Pool and Equipment Bureau rental rates. Additional reviews occur intermittently throughout the year, primarily for high use classes.

Considering everchanging economic conditions and vehicle cost recovery, rental rate factors should be revised periodically to reflect significant cost increases or decreases and ensure mathematical accuracy of published rates.

RECOMMENDATION #8

WE RECOMMEND THE DEPARTMENT:

A. ESTABLISH PROCEDURES FOR A QUARTERLY OR BIMONTHLY REVIEW OF RENTAL RATES TO ENSURE COST RECOVERY AND MATHEMATICAL ACCURACY.

B. CALCULATE RENTAL RATE CHARGES RECOVERING PRIOR GAINS AND/OR LOSSES ON A PER CLASS BASIS.

Documentation

Procedures for calculating Equipment Bureau rental rates for fiscal year 1979-80 and Motor Pool rental rates prior to January 1980 were inadequately documented. Because procedures for rate calculations were inadequately documented, we were unable to recompute the rental rates in effect for the periods described. Also, department personnel are unable to evaluate factors included in prior rate calculations when considering the current economic conditions.

Also, as noted in our prior audit report, the following policies are not documented in department manuals:

1. Mileage utilization standards for Motor Pool and Equipment Bureau vehicles. Mileage utilization standards include a vehicle usage of 15,000 miles per year for all vehicles.

2. Assignment criteria for leased vehicles. Assignment criteria for leased vehicles refer to vehicle availability, alternative available transportation, and reason for use.

Adequate documentation of department standards, procedures, and rental rate calculations promotes effective and efficient management.

RECOMMENDATION #9

WE RECOMMEND THE DEPARTMENT DOCUMENT PROCEDURES FOR RENTAL RATE CALCULATIONS, MILEAGE UTILIZATION STANDARDS, AND ASSIGNMENT CRITERIA FOR LEASED VEHICLES.

Vehicle Replacement Costs

Because Motor Pool users have not been charged for vehicle replacement costs, the Motor Pool unit has insufficient funds to purchase new vehicles. Historically, the Motor Pool has financed new vehicle purchases by recovering prior vehicle capital expenditures through depreciation charges. However, in inflationary periods, vehicle replacement costs exceed historical costs recovered through depreciation charges.

Sections 2-17-413 and 2-17-431, MCA, provide that the Motor Pool shall establish vehicle rental rates which may include cost

factors for vehicle replacement. If the department includes a factor for vehicle replacement or inflation in its rental rate, Motor Pool users will not receive federal reimbursement for this factor.

Federal regulations only permit reimbursement of actual operating expenses on state agency related projects. A factor for inflation or vehicle replacement in the rental rate is viewed by the federal government as a future vehicle expense which is not eligible for federal reimbursement.

Because the Motor Pool unit has insufficient funds to purchase new vehicles, the department, on behalf of the Motor Pool unit, has stated they intend to seek funding from the General Fund to finance vehicle purchases in the immediate future.

Although General Fund financing for new Motor Pool vehicles remedies the problem in the short-term, the department should analyze long-term solutions.

RECOMMENDATION #10

WE RECOMMEND THE DEPARTMENT REVIEW ALTERNATIVES FOR FINANCING NEW MOTOR POOL VEHICLE PURCHASES.

EQUIPMENT BUREAU CLASSIFICATION

The organizational structure of the Equipment Bureau does not promote efficient, effective departmental operations. Currently, the Equipment Bureau is organized separately from the Maintenance Division. A Federal Highway Administration (FHWA) management review report issued in October 1979 cited the Equipment Bureau/ Maintenance Division organizational structure as the

cause for several administrative and operational problems. This report noted "the present organization with the Equipment Division being separate from the Maintenance Division appears to be less than the most efficient organization."

This organizational structure creates two or more administrative levels for the Equipment Bureau personnel in each field division. For example, at the department's eleven division field offices, the Field Maintenance bureau chief administers both the maintenance and equipment operations. However, at the Helena headquarters, the Motor Pool and Equipment Division administrator, like the Maintenance Division administrator, reports to the Assistant Department Director.

The report also states that the Maintenance Division and Motor Pool and Equipment Division "priorities as to the type of equipment needed, equipment replacement and repair, and parts stocking are not necessarily compatible." Due to this organizational structure, maintenance work productivity may be hindered.

The Equipment Bureau is accounted for as an internal service fund. Internal service funds account for the financing of goods or services provided by one department or agency to other departments or agencies on a cost reimbursement basis. Because the Equipment Bureau provides road maintenance equipment solely to the Department of Highways, but not to other state departments or agencies, it may not meet the definition of an internal service fund. Also, the National Council on Governmental Accounting (NCGA) in Statement 1, recommends the "establishment of a minimum number of funds for consistency with legal specifications, operational requirements and fund classification principles."

The Equipment Bureau's primary purpose is to provide equipment for use by the Maintenance Division. The bureau also provides equipment for the Construction Bureau, the Materials Bureau, Motor Pool, and its own operations. Eighty-three percent of the bureau's total rental income in fiscal year 1979-80 was derived from Maintenance Division vehicle usage. Of the 50 individual vehicle classes maintained by the Equipment Bureau, 31 classes were utilized exclusively by the Maintenance Division.

If the Equipment Bureau is reorganized as part of the Maintenance Division, the equipment in the 31 classes utilized solely by the Maintenance Division should be transferred to the Maintenance Division. Vehicles in those remaining classes, which are similar to current Motor Pool vehicles and available for multiple use, should be transferred to the Motor Pool, subject to lease agreements, if necessary, with the user. Specialized equipment of the other vehicle classes should be transferred to the respective user.

RECOMMENDATION #11

WE RECOMMEND THE DEPARTMENT:

A. REORGANIZE THE EQUIPMENT BUREAU AS PART OF THE MAINTENANCE DIVISION.

B. TRANSFER EQUIPMENT BUREAU EQUIPMENT TO THE APPROPRIATE USERS.

VAN POOL

The Department of Highways, at the request of the Governor's Office, initiated a van pool pilot project in September 1979.

Three vans were purchased using Earmarked Revenue Fund moneys. During the first nine months of operation, the van pool had an average daily ridership of 75 passengers and operated at a loss of $3,100. Department personnel informed us that the van pool is currently operating at a small profit.

Currently, there is no legislative authority for the department to conduct such a project. By statute, the department's responsibility is to construct and maintain state highways. The department's authority does not specifically include transporting department employees to and from personal residences and work.

Van pool operations are currently recorded in the Earmarked Revenue Fund. According to generally accepted accounting principles, the van pool activity should be accounted for in an enterprise fund. An enterprise fund accounts for operations where the costs of providing goods or services to the general public are recovered primarily through user charges. Because of its relatively small operation, department personnel do not consider the establishment of an enterprise fund necessary for the van pool operations.

If van pool operations are continued, the department should seek legislative authorization to do so and, if operations are expanded, record van pool operations in an enterprise fund.

RECOMMENDATION #12

WE RECOMMEND THE DEPARTMENT SEEK SPECIFIC LEGISLATIVE AUTHORIZATION FOR CONTINUATION AND/OR EXPANSION OF THE VAN POOL PROGRAM.

STORES INVENTORIES

As of June 30, 1980 the department reported approximately $4,111,000 in stores inventory. These inventories consist of office supplies, gas, oil, equipment parts, and maintenance tools.

Inventory Count Procedures

In March 1980, we observed stores physical inventories at two divisions and the Helena headquarters. We also observed the department's inventory count procedures, reviewed inventory controls, and performed test counts at the divisions visited.

Although the department has begun supervising year-end inventory procedures, as recommended in our prior audit report, we noted the following procedural weaknesses:

1. In some locations, stock items were not tagged to prevent them from being missed or double counted.
2. In all the divisions visited, certain stock items were not physically arranged to facilitate accurate counts.
3. Prenumbered count sheets were not used for all locations visited.

The department's count varied from our test counts for 16 percent of the stock items counted. Using a 90 percent confidence level, the proportional difference in the OLA counts and DOH counts ranges from 12 to 20 percent. This variance could be reduced if the department strengthened and improved its inventory procedures.

RECOMMENDATION #13

WE RECOMMEND THE DEPARTMENT STRENGTHEN ITS INVENTORY PROCEDURES.

Inventory Items with Low Unit Cost

The department's inventory includes a significant number of inventory items with a low unit cost. Using variable sampling techniques, we project at a 90 percent confidence level, that between 57 and 60 percent of the $1,150,500 population sampled represent stock items with a unit cost of less than $25. Using the same population parameters, 48 to 52 percent of the population sampled represent stock items with a unit cost of $10 or less. We also determined that approximately 5 percent or $214,541 of the stores inventories represent office supplies. These inventory items with low unit cost should be directly expensed or allocated to various construction or maintenance projects at the time they are purchased.

Elimination of these inventory stock items from the inventory reporting system would reduce administrative and reporting costs. The department currently expends, at a minimum, $245,000 a year for inventory maintenance. This inventory expense consists of $13,312 for data processing costs and $221,180 for salaries of stockmen at the eleven divisions and headquarters personnel.

The department provides detailed inventory cost information to the Federal Highways Administration (FHWA) for use in determining federal reimbursement amounts. In discussions with a FHWA auditor, we learned that the federal government does not require such detailed reports. The auditor indicated that allocation of inventory costs would be acceptable if the allocations were done on a reasonable basis.

Considering the significant percentage of inventory units with a low unit cost, the department should evaluate their inventory policies for low cost items.

<u>RECOMMENDATION #14</u>

WE RECOMMEND THE DEPARTMENT:

A. ELIMINATE INVENTORY STOCK ITEMS BELOW A CERTAIN DOLLAR VALUE FROM THEIR INVENTORY REPORTING SYSTEM.

B. ALLOCATE THE COST OF EXPENDABLE SUPPLIES WITH A LOW UNIT COST DIRECTLY TO VARIOUS CONSTRUCTION AND MAINTENANCE PROJECTS.

<u>Reusable Inventory Items</u>

Policies ensuring consistent treatment of reusable inventory items have not been established by department personnel. During our field work, we noted a significant number of reusable inventory items. Reusable inventory items consist of equipment parts, tools, sign posts, fencing, and guard rails. In some divisions, reusable inventory items are included in the inventory at values determined by division personnel. In other divisions, the same reusable items are not inventoried at all.

<u>RECOMMENDATION #15</u>

WE RECOMMEND THE DEPARTMENT ESTABLISH POLICIES TO ACCOUNT FOR REUSABLE INVENTORY ITEMS.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

Departmental policy requires that 3/4 of 1 percent of the accounts receivable billings for the Earmarked Revenue Fund may be written off as bad debts on a monthly basis. Accounts are written off until the allowance account attains a balance of $7,500. No further account charge-offs are allowed until the balance drops below $7,500.

Our review of the allowance account indicated that the allowance for doubtful accounts was not adequate. The Earmarked Revenue Fund allowance was understated by at least $2,252 in fiscal year 1978-79 and $9,673 in fiscal year 1979-80. Based on our discussions with department personnel, the allowance for doubtful accounts for fiscal year 1979-80 has been adjusted.

Our audit tests indicated uncollectible accounts also exist in the Motor Pool and Equipment Bureau Revolving Funds. Accordingly, accounts receivable for these funds are overstated by the amount of the uncollectible accounts.

RECOMMENDATION #16

WE RECOMMEND THE DEPARTMENT PERIODICALLY EVALUATE THE ADEQUACY OF THE ALLOWANCE FOR DOUBTFUL ACCOUNTS FOR ALL FUNDS.

COMPLIANCE

The department does not have established policies and procedures that comply with state law relating to the matters described below.

New Vehicle Tax

In computing the new vehicle tax, section 61-3-502, MCA, states that "if the manufacturer or importer fails to furnish the FOB factory list price or FOB port-of-entry list price, the Gross Vehicle Weight (GVW) Division may use published price lists."

During visits to four counties, we found that county personnel are not consistently interpreting this statute. Personnel from one county used the published price lists from GVW headquarters. Personnel in another county used the Automobile Dealers Association price list. In the other two counties, personnel computed the tax using the manufacturer's suggested list price supplied by the dealer. These inconsistencies result in taxpayers being charged different taxes for the same vehicle.

Effective November 1, 1980, county personnel have been instructed by the department to use the dealer supplied manufacturer's suggested list price. Although new instructions have been issued, the department has no assurance of compliance with these instructions because of the department's minimal control over county operations.

24-Hour Weigh Stations

Section 60-2-302, MCA, states that "the department shall establish checking stations (weigh stations) at convenient points on the major highways entering this state and these stations shall be kept open at all times." From observation and review of weigh station schedules, we noted that no weigh station in the state is scheduled to be open 24 hours a day.

Because funding has not been available, the department has not implemented the statutory provision for 24-hour weigh station operations. According to the 1982-83 executive budget, the department has requested increased staffing for weigh stations.

RECOMMENDATION #17

WE RECOMMEND THE DEPARTMENT COMPLY WITH THE STATE LAWS DISCUSSED ABOVE OR SEEK CHANGES IN THE STATE LAW.

INTERNAL CONTROL

As part of our examination, we made a study and evaluation of the department's system of internal accounting control to establish a basis for reliance thereon in determining the nature, timing, and extent of other auditing procedures necessary for expressing an opinion on the financial statements and to assist in planning and performing our examination of the financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

Our study and examination of the department's system of internal accounting control would not necessarily disclose all weaknesses in the system because it was based upon selective tests of accounting records and related data. Our tests did not disclose any material weaknesses in internal control; however, our study and evaluation disclosed the weaknesses listed below:

--The department's procedures manual does not require equipment usage documents to be reviewed and approved by a supervisor at the division level before being processed by accounting.

--As noted in a prior audit report, payroll cover sheets and individual time sheets are not always approved by a supervisor.

--There is not a proper separation of duties between the payroll and personnel units. We noted that payroll clerks sign payroll status and termination forms. We also noted that not all payroll status forms were available for testing in the employee's personnel files maintained by the Personnel Division.

--The department had inadequate access controls over payroll and inventory data processing terminals. Controls such as user identification numbers, passwords and a system log-on/off should be established.

RECOMMENDATION #18

WE RECOMMEND THE DEPARTMENT IMPLEMENT PROCEDURES TO CORRECT THE INTERNAL CONTROL WEAKNESSES DISCUSSED ABOVE.

PRIOR AUDIT RECOMMENDATIONS

Our previous audit report for the department for fiscal years 1976-77 and 1977-78 contained 61 recommendations. The department concurred or partially concurred with 51 recommendations. Of the 53 recommendations still applicable to the department's

operations, they have implemented or partially implemented 46 of the recommendations. Three recommendations require legislation for implementation. Because there has not been a legislative session since our previous audit report was issued, corrective action has not been possible. Of the four recommendations not implemented, the department did not concur with two recommendations.

Sections of this report include discussion of those recommendations which the department has not implemented. The following paragraphs discuss recommendations not previously addressed with which the department concurred, but has not implemented.

Leases

We noted that the department has approximately 30 gravel stockpile leases with an average annual lease amount of $60. The majority of these leases have a one-year term and are renewed annually. Savings in administrative costs may be realized if these leases were written for a term of more than one year.

New Vehicle Warranties

New vehicles purchased by the Motor Pool and Equipment Bureau are warranted for the standard 12 months or first 12,000 miles of operation. This warranty should be fully utilized.

As of September 1980, 2 vans purchased in January 1980, 11 passenger cars, and 5 pickups purchased in May and June 1980 by the Equipment Bureau, were not in full service.

In our prior audit report, we recommended that newly purchased Motor Pool vehicles be fully utilized.

RECOMMENDATION #19

WE RECOMMEND THE DEPARTMENT:

A. WRITE STOCKPILE LEASES FOR MORE THAN ONE YEAR IF POSSIBLE.

B. FULLY UTILIZE WARRANTIES FOR ALL VEHICLES PURCHASED.

AUDITOR'S REPORT AND FINANCIAL STATEMENTS

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/449-3122

JAMES H. GILLETT, C.P.A.
ACTING LEGISLATIVE AUDITOR

JOHN W. NORTHEY
STAFF LEGAL COUNSEL

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the Combined Balance Sheet of the various funds and account groups of the Department of Highways as of June 30, 1980, and the related Combined Statement of Revenues, Expenditures and Changes in Fund Balance, the Combined Statement of Revenue, Expenses and Changes in Retained Earnings and the Combined Statement of Changes in Financial Position for the fiscal years ended June 30, 1979 and June 30, 1980. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Because the department's primary accounting records do not contain comparable budget information, the accompanying statements for the fiscal years ended June 30, 1979 and June 30, 1980 do not include a Combined Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual as required by generally accepted accounting principles for the Highway Earmarked Revenue Fund, Coal Area Earmarked Revenue Fund, Federal and Private Revenue Fund, and the Motor Pool and Equipment Bureau Revolving Funds.

In our opinion, except for the omission of the required financial statement described in the preceding paragraph, the financial statements referred to above present fairly the financial position of the Department of Highways at June 30, 1980, the results of operations, changes in fund balance, changes in retained earnings, and changes in financial position for the fiscal years ended June 30, 1979 and June 30, 1980, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the changes with which we concur, in the method of accounting for 1) federal aid receivables, 2) actual construction costs based on state/federal participation ratios, 3) court deposits pending litigation, 4) accrual of construction costs, and 5) proceeds on equipment sales, as described in Notes 2 and 3 to the financial statements.

Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Combined Schedule of Changes in Assets and Liabilities, the Combined Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual, the items titled "Total - (Memorandum Only)" on the Combined Balance Sheet, the Combined Statement of Revenues, Expenditures, and Changes in Fund Balance, the Combined Statement of Revenues, Expenses and Changes in Retained Earnings and the Combined Statement of Changes in Financial Position are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The Combined Schedule of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual marked "unaudited" on which we express no opinion, was prepared from

the Statewide Budget and Accounting System (SBAS) records. This schedule is materially inconsistent, as described in the note on the schedule, with the other statements and schedules presented.

The accompanying Combined Schedule of Changes in Assets and Liabilities, and the items titled "Total - (Memorandum Only)" on the Combined Balance Sheet, the Combined Statement of Revenues, Expenditures and Changes in Fund Balance, and the Combined Statement of Revenues, Expenses and Changes in Retained Earnings and the Combined Statement of Changes in Financial Position have been subjected to the auditing procedures applied in the examination of the basic financial statements; and in our opinion, this information is fairly stated in all material respects in relation to the basic financial statement taken as a whole.

Respectfully submitted,

James H. Gillett

James H. Gillett, CPA
Acting Legislative Auditor

November 14, 1980

MONTANA DEPARTMENT OF HIGHWAYS
COMBINED BALANCE SHEET - ALL FUNDS AND ACCOUNT GROUPS
JUNE 30, 1980

	GOVERNMENTAL FUND TYPES SPECIAL REVENUE FUNDS			PROPRIETARY FUND TYPES INTERNAL SERVICE FUNDS	
	EARMARKED	COAL AREA EARMARKED	FEDERAL & PRIVATE	MOTOR POOL REVOLVING	EQUIPMENT BUREAU REVOLVING
ASSETS:					
Cash	$12,441,615	$15,117,191	$ 6,991,808	$ (25,098)	$ 2,681,301
Accounts Receivable	1,313,025		26,308,230	157,200	237,968
Allowance for Doubtful Accounts	(16,500)				
Inter Fund Loan Receivable	30,057,179				
Investments					
Travel Advances	23,023				
Advances to A & E					
Amount Available in Debt Service Funds					
Amount to be Provided for Retirement of General Long-Term Debt					
Prepaid Expenses			2,494,109		
Inventories:					
Gravel Stockpiles	3,670,222				
Office & Eng. Supplies	214,542				
Asphalt Supplies	255,031				
Maint. & Constr. Materials	2,605,626				
Lab Supplies	91,437				
Equipment Parts				36,201	1,163,439
Fixed Assets:					
Office Furniture & Fixtures				5,448	5,500
Major Road Equipment				1,135,955	21,091,899
Land & Buildings				227,621	
Shop Tools & Equipment				134	307,325
Other Equipment					
Allowance for Depreciation				(481,310)	(10,324,747)
Deferred Charges:					
Work in Progress					131,825
Gravel Production	3,512,444				
TOTAL ASSETS	$54,167,644	$15,117,191	$35,794,147	$1,056,151	$15,294,510
LIABILITIES AND FUND EQUITY:					
Liabilities:					
Claims Payable	$ 318,287		$ 823	$ 1,219	$ 36,114
Accrued Claims Payable	2,612,479		4,398,530	38,917	859,519
Contractor's Claims Payable			461,901		
Const. Gross Rec. Fees Payable	533		183,173		
Bonds Payable					
Other Liabilities			775,234		
Due to Woodville Projects					
Undistributed GVW Receipts					
Inter Fund Loans Payable			29,974,486	82,693	
TOTAL LIABILITIES	$ 2,931,299		$35,794,147	$ 122,829	$ 895,633
Fund Equity:					
Fund Balance	$44,399,487	$15,117,191			
Reserved Fund Balance	6,836,858				
Retained Earnings				$ 933,322	$14,398,877
Investment In General Fixed Assets					
TOTAL FUND EQUITY	$51,236,345	$15,117,191		$ 933,322	$14,398,877
TOTAL LIABILITIES AND FUND EQUITY	$54,167,644	$15,117,191	$35,794,147	$1,056,151	$15,294,510

The notes to the financial statements are an integral part of this Statement.

	FIDUCIARY FUND TYPES		ACCOUNT GROUPS		TOTALS
	AGENCY FUNDS				
	GVW AGENCY	WOODVILLE HWY REPLACEMENT	GENERAL FIXED ASSETS	GENERAL LG-TERM DEBT	MEMORANDUM ONLY)
	$562,516	$ 526			$ 37,769,859
	1,675				28,018,098
					(16,500)
					30,057,179
		1,767,599			1,767,599
					23,023
				$1,142,599	1,142,599
				5,357,401	5,357,401
					2,494,109
					3,670,222
					214,542
					255,031
					2,605,626
					91,437
					1,199,640
			$ 1,629,101		1,640,049
			33,075		22,260,929
			21,207,652		21,435,273
					307,459
			3,336,919		3,336,919
					(10,806,057)
			1,165,472		1,297,297
					3,512,444
	$564,191	$1,768,125	$27,372,219	$6,500,000	$157,634,178
					$ 356,443
					7,909,445
					461,901
					183,706
				$6,500,000	6,500,000
	$564,308				1,339,542
		$1,768,125			1,768,125
	(117)				(117)
					30,057,179
	$564,191	$1,768,125		$6,500,000	$ 48,576,224
					$ 59,516,678
					6,836,858
					15,332,199
			$27,372,219		27,372,219
			$27,372,219		$109,057,954
	$564,191	$1,768,125	$27,372,219	$6,500,000	$157,634,178

MONTANA DEPARTMENT OF HIGHWAYS
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
ALL GOVERNMENTAL FUND TYPES

FOR THE FISCAL YEAR ENDED JUNE 30, 1979

	GOVERNMENTAL FUND TYPES			
	SPECIAL REVENUE FUNDS			
	EARMARKED	COAL AREA EARMARKED	FEDERAL AND PRIVATE	TOTAL (MEMORANDUM ONLY)
REVENUES:				
Motor Fuel Taxes	$47,756,163			$ 47,756,163
Gross Veh. Weight Receipts	16,470,806			16,470,806
U.S. Government Permits & Lease Receipts	2,820,994			2,820,994
Coal Tax Receipts		$4,162,183		4,162,183
Construction Receipts from U.S. Government			$80,882,478	80,882,478
Van Pooling Receipts				
Accts. Receivable Receipts	1,126,168			1,126,168
Miscellaneous Receipts	709,319			709,319
TOTAL REVENUES	$68,883,450	$4,162,183	$80,882,478	$153,928,111
EXPENDITURES:				
Operating Expenses:				
General Administration	$ 3,043,435			$ 3,043,435
Field Engr. Div. Admin.	1,012,967			1,012,967
Maintenance Admin.	2,064,032			2,064,032
Right-of-Way Admin.	878,339			878,339
Preliminary Engr. Admin.	822,988			822,988
Construction Engr. Admin.	365,329			365,329
GVW Tax Collection	1,691,359			1,691,359
Travel Promotion	662,457			562,457
Rail Planning	14,074			14,074
Maintenance	20,462,149			20,462,149
Payroll Additive Over (Under) Applied	310,072			310,072
Construction	15,440,076		$80,882,478	96,322,554
Accts. Receivable Expense	1,126,168			1,126,168
Bad Debts	28,097			28,097
Van Pooling				
Communications	216,967			216,967
Bldg. & Equipment Repairs	380,050			380,050
Rest Areas	493,421			493,421
Other Expenses	278,030			278,030
Hwy Bldg. Sinking Fund	548,000			548,000
Fixed Asset Expend. (Capital Outlay)	1,202,695			1,202,695
TOTAL EXPENDITURES	$51,040,705		$80,882,478	$131,923,183
EXCESS OF REVENUES OVER (UNDER) EXPENDITURE:	$ 17,842,745	$ 4,162,183	$ -0-	$ 22,004,928
OTHER FINANCING SOURCES AND (USES):				
Prior Year Revenues	$ 224,822			$ 224,822
Prior Year Expenditures	(142,623)			(142,623)
Transfers to Other State Agencies	(10,868,198)			(10,868,198)
Transfers to Equip. Bur.	(1,590,405)			(1,590,405)
TOTAL OTHER FINANCING SOURCES AND (USES)	$(12,376,404)			$(12,376,404)
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	$ 5,466,341	$ 4,162,183		$ 9,628,524
FUND BALANCE - JULY 1, 1978	42,206,013	9,168,301		51,374,314
ADJ. OF STATE CONST. COSTS	10,651,573			10,651,573
FUND BALANCE - JUNE 30, 1979	$ 58,323,927	$13,330,484	$ -0-	$ 71,654,411

The notes to the financial statements are an integral part of this statement.

MONTANA DEPARTMENT OF HIGHWAYS
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
ALL GOVERNMENTAL FUND TYPES

FOR THE FISCAL YEAR ENDED JUNE 30, 1980

	GOVERNMENTAL FUND TYPES SPECIAL REVENUE FUNDS			
	EARMARKED	COAL AREA EARMARKED	FEDERAL AND PRIVATE	TOTAL (MEMORANDUM ONLY)
REVENUES:				
Motor Fuel Taxes	$50,106,775			$ 50,106,775
Gross Veh. Weight Receipts	18,627,788			18,627,788
U.S. Government Permits & Lease Receipts	3,087,952			3,087,952
Coal Tax Receipts		$ 1,786,707		1,786,707
Construction Receipts from U.S. Government			$117,595,099	117,595,099
Van Pooling Receipts	9,642			9,642
Accts. Receivable Receipts	1,423,627			1,423,627
Miscellaneous Receipts	87,355		194,051	281,406
TOTAL REVENUES	$73,343,139	$ 1,786,707	$117,789,150	$192,918,996
EXPENDITURES:				
Operating Expenses:				
General Administration	$ 3,549,407			$ 3,549,407
Field Engr. Div. Admin.	1,094,778			1,094,778
Maintenance Admin.	2,257,893			2,257,893
Right-of-Way Admin.	938,657			938,657
Preliminary Engr. Admin.	894,079			894,079
Construction Engr. Admin.	422,497			422,497
GVW Tax Collection	1,692,401			1,692,401
Travel Promotion	594,744			594,744
Rail Planning	50,425			50,425
Maintenance	23,283,810			23,283,810
Payroll Additive Over (Under) Applied	604,600			604,600
Construction	21,319,145		$117,595,099	138,914,244
Accts. Receivable Expense	1,190,463			1,190,463
Bad Debts	43,458			43,458
Van Pooling	9,212			9,212
Communications	219,730			219,730
Bldg. & Equipment Repairs	437,125			437,125
Rest Areas	454,860			454,860
Other Expenses	85,409		194,051	279,460
Hwy Bldg. Sinking Fund				
Fixed Asset Expend. (Capital Outlay)	1,550,317			1,550,317
TOTAL EXPENDITURES	$60,693,010		$117,789,150	$178,482,160
EXCESS OF REVENUES OVER (UNDER) EXPENDITURE:	$ 12,650,129	$ 1,786,707	$ -0-	$ 14,436,836
OTHER FINANCING SOURCES AND (USES):				
Prior Year Revenues	$ 25,421			$ 25,421
Prior Year Expenditures	40,788			40,788
Transfers to Other State Agencies	(15,642,718)			(15,642,718)
Transfers to Equip. Bur.	(881,531)			(881,531)
TOTAL OTHER FINANCING SOURCES AND (USES)	$(16,458,040)			$(16,458,040)
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	$ (3,807,911)	$ 1,786,707		$ (2,021,204)
FUND BALANCE - JULY 1, 1979	58,323,927	13,330,484		71,654,411
ADJ. OF STATE CONST. COSTS	(3,279,671)			(3,279,671)
FUND BALANCE - JUNE 30, 1980	$ 51,236,345	$15,117,191	$ -0-	$ 66,353,536

The notes to the financial statements are an integral part of this statement.

MONTANA DEPARTMENT OF HIGHWAYS
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
ALL PROPRIETARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 1979

	PROPRIETARY FUND TYPES — INTERNAL SERVICE FUNDS		
	Motor Pool Revolving	Equipment Bureau Revolving	Total (Memorandum Only)
Operating Revenues			
Equipment Rentals	$ 463,466	$ 6,508,008	$ 6,971,474
Accounts Receivable Receipts	691	51,838	52,529
Miscellaneous Receipts	27	19,259	19,286
Total Operating Revenues	$ 464,184	$ 6,579,105	$ 7,043,289
Operating Expenses			
Direct Equipment Expense	$ 267,606	$ 4,486,510	$ 4,754,116
Indirect Equipment Expense	90,782	1,188,758	1,279,540
Equipment Repairs		11,989	11,989
Equipment Transfer Costs	344	29,535	29,879
Depreciation	136,093	1,049,736	1,185,829
Payroll Additive Over (Under) Applied	(3,853)	(102,716)	(106,569)
Inventory Adjustments		76,873	76,873
Non-Reimbursable Expense		23,770	23,770
Accounts Receivable Expense	691	51,838	52,529
Fixed Costs Changed to Unused Mobile Equipment		6,929	6,929
Total Operating Expenses	$ 491,663	$ 6,823,222	$ 7,314,885
Operating Income (Loss)	$ (27,479)	$ (244,117)	$ (271,596)
Non-Operating Revenues and (Expenses):			
Gain on Sale of Equipment	$ 10,528	$ 116,938	$ 127,466
Prior Year Revenue	14,357	42,151	56,508
Prior Year Expenses	(11,191)	(42,799)	(53,990)
Total Non-Operating Revenues and (Expenses)	$ 13,694	$ 116,290	$ 129,984
Transfer from Earmarked Revenue		$ 1,590,405	$ 1,590,405
NET INCOME (LOSS)	$ (13,785)	$ 1,462,578	$ 1,448,793
Retained Earnings - July 1, 1978	870,564	10,915,991	11,786,555
Retained Earnings - June 30, 1979	$ 856,779	$12,378,569	$13,235,348

The notes to the Financial Statements are an integral part of this statement.

MONTANA DEPARTMENT OF HIGHWAYS
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
ALL PROPRIETARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 1980

	PROPRIETARY FUND TYPES INTERNAL SERVICE FUNDS		
	Motor Pool Revolving	Equipment Bureau Revolving	Total (Memorandum Only)
Operating Revenues:			
Equipment Rentals	$ 695,013	$ 8,342,708	$ 9,037,721
Accounts Receivable Receipts	7,839	70,576	78,415
Other Revenues	9,690	8,198	17,888
TOTAL OPERATING REVENUE	$ 712,542	$ 8,421,482	$ 9,134,024
Operating Expenses:			
Direct Equipment Expense	$ 386,113	$ 4,766,076	$ 5,152,189
Indirect Equipment Expense	93,261	1,186,271	1,279,532
Equipment Repairs		15,104	15,104
Equipment Transfer Costs	754	18,112	18,866
Depreciation	142,103	1,122,487	1,264,590
Payroll Additive Over (Under) Applied	4,271	122,320	126,591
Inventory Adjustments		9,854	9,854
Non-Reimbursable Expenses	2,532	27,924	30,456
Accounts Receivable Expenses	7,839	70,576	78,415
Total Operating Expenses	$ 636,873	$ 7,338,724	$ 7,975,597
Operating Income (Loss)	$ 75,669	$ 1,082,758	$ 1,158,427
Non-Operating Revenues And (Expenses):			
Gain on sale of Equipment	$ 1,731	$ 69,902	$ 71,633
Prior Year Expenses	(858)	(13,883)	(14,741)
Total Non-Operating Revenues (Expenses)	$ 873	$ 56,019	$ 56,892
Transfers from Earmarked Revenue		$ 881,531	$ 881,531
NET INCOME (LOSS)	$ 76,542	$ 2,020,308	$ 2,096,850
Retained Earnings - July 1, 1979	856,780	12,378,569	13,235,349
Retained Earnings - June 30, 1980	$ 933,322	$ 14,398,877	$15,332,199

The notes to the financial statements are an integral part of this statement.

MONTANA DEPARTMENT OF HIGHWAYS
COMBINED STATEMENT OF CHANGES IN FINANCIAL POSITION
ALL PROPRIETARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 1979

	PROPRIETARY FUND TYPES INTERNAL SERVICE FUNDS		
	MOTOR POOL REVOLVING	EQUIPMENT BUREAU REVOLVING	TOTALS (MEMORANDUM ONLY)
Sources of Working Capital:			
Operations:			
Net Income (Loss)	$ (27,479)	$ (244,117)	$ (271,596)
Items Not providing Working Capital:			
Depreciation	136,093	1,049,736	1,185,829
Working Capital Provided By Operation	$ 108,614	$ 805,619	$ 914,233
Gain on Sale of Equipment	10,528	116,938	127,466
Prior Year Revenue	14,357	42,151	56,508
Transfers from Earmarked Revenue		1,590,405	1,590,405
Total Sources of Working Capital	$ 133,499	$ 2,555,113	$ 2,688,612
Uses of Working Capital:			
Net Increase in Fixed Assets	$ 213,740	$ 2,231,029	$ 2,444,769
Prior Year Expenses	11,190	42,799	53,989
Reduction in Loan Payable to Earmarked Revenue	10,796		10,796
Total Uses of Working Capital	$ 235,726	$ 2,273,828	$ 2,509,554
Net Increase (Decrease) in Working Capital	$(102,227)	$ 281,285	$ 179,058
Elements of Net Change in Working Capital:			
Cash	$ 82,784	$ 463,285	$ 546,069
Accounts Receivable	16,219	143,353	159,572
Accrued Claims Payable	(206,975)	(532,327)	(739,302)
Inventories	5,745	207,510	213,255
Work In Progress		(536)	(536)
Net Increase (Decrease) in Working Capital	$(102,227)	$ 281,285	$ 179,058

The notes to the Financial Statements are an integral part of this statement.

MONTANA DEPARTMENT OF HIGHWAYS
COMBINED STATEMENT OF CHANGES IN FINANCIAL POSITION
ALL PROPRIETARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 1980

		PROPRIETARY FUND TYPES	
		INTERNAL SERVICE FUNDS	
	MOTOR POOL REVOLVING	EQUIPMENT BUREAU REVOLVING	TOTALS (MEMORANDUM ONLY)
Sources of Working Capital:			
Operations:			
Net Income (Loss)	$ 75,669	$ 1,082,758	$ 1,158,427
Items Not providing Working Capital:			
Depreciation	142,103	1,122,487	1,264,590
Working Capital Provided By Operation	$ 217,772	$ 2,205,245	$ 2,423,017
Gain on Sale of Equipment	1,731	69,902	71,633
Transfers from Earmarked Revenue		881,531	881,531
Total Sources of Working Capital	$ 219,503	$ 3,156,678	$ 3,376,181
Uses of Working Capital:			
Net Increase in Fixed Assets	$ 202,553	$ 1,383,563	$ 1,586,116
Prior Year Expenses	858	13,884	14,742
Reduction in Loan Payable to Earmarked Revenue	20,610	400,000	420,610
Total Uses of Working Capital	$ 224,021	$ 1,797,447	$ 2,021,468
Net Increase (Decrease) in Working Capital	$ (4,518)	$ 1,359,231	$ 1,354,713
Elements of Net Change in Working Capital:			
Cash	$ (294,491)	$ 1,074,166	$ 779,675
Accounts Receivable	80,946	81,123	162,069
Accrued Claims Payable	182,959	(118,317)	64,642
Inventories	26,068	229,732	255,800
Work In Progress		92,527	92,527
Net Increase (Decrease) in Working Capital	$ (4,518)	$ 1,359,231	$ 1,354,713

The notes to the Financial Statements are an integral part of this statement.

DEPARTMENT OF HIGHWAYS
NOTES TO THE FINANCIAL STATEMENTS

FISCAL YEARS ENDED JUNE 30, 1979 and 1980

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements were prepared primarily from agency general ledgers maintained by the Department of Highways. Until June 30, 1980, these agency general ledgers were the department's primary accounting records. At June 30, 1980 the department was in the process of converting to the use of the Statewide Budgeting and Accounting System (SBAS) as the department's primary accounting record. Early in the 1980-81 fiscal year, the department recorded SBAS entries to bring SBAS into agreement with the department-maintained general ledgers. Effective July 1, 1980 the department no longer maintains the separate general ledger and SBAS became the department's primary accounting system.

Basis of Accounting - The Department of Highways utilizes the modified accrual basis of accounting for the Highway Earmarked Revenue Fund, the Coal Area Earmarked Revenue Fund, the Federal and Private Revenue Fund, and the GVW and Woodville Highway Replacement Agency Funds.

Under the modified accrual basis of accounting, expenditures are recorded on the basis of valid obligations. Revenues are recorded when received in cash unless susceptible to accrual. Revenues are susceptible to accrual if 1) they are measurable and available to finance expenditures of the fiscal period or 2) are material in amount and are not received at the normal time of receipt.

The department utilizes the accrual basis of accounting for the Motor Pool Revolving Fund and Equipment Bureau Revolving Fund.

Fund Types - The State of Montana accounts are organized by a fund structure as outlined in section 17-2-102, MCA. For financial presentation,

these funds have been reclassified according to the National Council on Governmental Accounting (NCGA), Governmental Accounting and Financial Reporting Principles Statement 1.

A. <u>Special Revenue Funds</u>

These are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Special revenue funds include the Highway Earmarked Revenue Fund, the Coal Area Earmarked Revenue Fund, and the Federal and Private Revenue Fund.

a) <u>Highway Earmarked Revenue Fund</u> - Accounts for various department activities financed primarily from state motor fuel taxes. The activities include highway maintenance, department administration, and the state's share of highway construction costs.

Fees from the sale of outdoor sign permits are transferred to the Highway Earmarked Revenue Fund. For financial statement purposes, the balance sheet accounts for the Outdoor Advertising Sign Control are included in the Highway Earmarked Revenue Fund.

b) <u>Coal Area Earmarked Revenue Fund</u> - An Earmarked Revenue Fund to account for the receipt and expenditure of coal taxes allocated for the improvement of deficient highway sections in the eastern Montana coal field economic growth center.

c) Federal and Private Revenue Fund - Accounts for receipts and expenditures of federal monies designated for highway construction projects.

B. Proprietary Funds

The proprietary funds comprise the revolving funds under the Montana fund structure. For presentation purposes, the revolving fund represents the internal service funds. An internal service fund is used to account for the financing of services between governmental units on a cost reimbursement basis. At the Department of Highways, the internal service funds are the Motor Pool Revolving Fund and the Equipment Bureau Revolving Fund.

a) Motor Pool Revolving Fund - An internal service fund to account for the financial activities of the state motor pool. The motor pool operates a fleet of passenger-type vehicles available for rental by all state agencies based in Helena.

b) Equipment Bureau Revolving Fund - An internal service fund to account for the financial activities of the department's Equipment Bureau. The Bureau is responsible for purchasing and maintaining equipment and vehicles owned and used by the department throughout the state.

C. Fiduciary Funds

Trust and Agency Funds account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organiza-

tions, or other governmental units. The department's agency funds are classified as trust and agency/fiduciary funds.

a) GVW Agency Fund - To hold fees collected for gross vehicle weight permits and licenses for later distribution to the appropriate counties and state agency funds.

b) Woodville Highway Replacement Agency Fund - To account for the proceeds and interest earned on the sale of a section of highway to the Anaconda Company. The department is holding these monies in trust with the intent that they be used to improve Butte-Silver Bow area roadways.

D. Account Groups

a) General Fixed Assets Account Group - This account group accounts for all fixed assets of the department, other than those fixed assets accounted for in the internal service funds. As of May 30, 1980 the department began utilizing the Property Accountability Management System (PAMS), which accounts for fixed assets statewide.

Fixed asset purchases by the Earmarked Revenue Fund are recorded as expenditures at the time of purchase, and these items are capitalized in the state's Property Accountability Management System as general fixed assets. No depreciation is recorded on general fixed assets.

Vehicles and equipment in the Internal Service Fund are depreciated on a straight line basis according to the estimated normal life in miles or hours.

b) General Long-Term Debt Account Group - This account group accounts for the unmatured principal of general long term debt relating to the Highway Department building complex. Specific liabilities of the Revolving Funds or Agency Funds are not reflected in this account group.

Inventories - Inventory is valued at weighted average cost. The cost of such inventory is expended when the item is used.

Vacation and Sick Pay - Annual leave and sick leave costs are not recorded as expenditures until leave is taken. State law permits employees to accumulate and carryover to a new calendar year a maximum of two times their annual accumulation of vacation. An employee is allowed 90 days of the following year to use any annual leave accumulated in excess of the allowed carryover. Upon termination, qualifying employees having unused accumulated vacation and sick leave receive payment for vacation on a 100 percent basis and sick leave on a 25 percent basis. The amount of the liability associated with unused accumulated vacation and sick leave at June 30, 1980 is maintained on an hourly basis rather than by dollar amount. The monetary liability is not calculated until an employee terminates.

Leases - The department leases various office and other facilities throughout the state. In addition, the department enters into lease agreements for electronic data processing equipment. The term of the leases is generally a year or less and all leases contain cancellation clauses. These leases are

classified as operating leases. It is expected that similar lease agreements will be entered into in future periods.

Adjustment of State Construction Costs - These adjustments are due to the change in the method of recording construction expenses. See footnote 2(c) also.

Inventory Adjustments - This expense account is used to record the variation between the inventory on the books and the actual inventory valuation based on physical count.

Direct Equipment Expense - These are costs in the Motor Pool and Equipment Bureau which are directly assignable to a specific piece of equipment, such as fuel, oil, tires, etc.

Indirect Equipment Expense - These are costs in the Motor Pool and Equipment Bureau which cannot be assigned directly to an individual piece of equipment. Included are administrative costs, maintenance supplies, etc.

2. CHANGES IN ACCOUNTING POLICIES

The financial statements for the Earmarked Revenue Fund and Federal and Private Revenue Fund are prepared utilizing accounting methods that differ from department prepared financial statements issued for prior years. The major changes are as follows:

a. Prior statements recorded as receivables in the Federal and Private Revenue Fund the full amount of authorized federal participation in construction projects less federal cost reimbursements received through fiscal year end. The statements for the two fiscal years ended June 30, 1980, include receivables for the amount earned but

uncollected (federal share of costs incurred less federal reimbursements received) as of each year end.

b. Prior balance sheets included reserves for construction costs constituting authorized project costs less actual project costs. The June 30, 1979 and 1980 balance sheets contain no such reserve accounts.

c. Prior financial statements reported the state share of construction costs (paid from the Earmarked Revenue Fund) as being fully expended in the amount of the state's share of <u>estimated</u> project cost at the time construction contracts were awarded. The statements for the two fiscal years ended June 30, 1980, report actual construction costs on the basis of the approved state-federal participation ratios.

d. Prior financial statements reported as expenditures in the Federal and Private Revenue Fund court deposits the department made pending litigation. The 1978-79 and 1979-80 statements report these amounts as prepaid expenses on the balance sheet.

e. A significant portion of construction costs earned by contractors but not paid to them by June 30 were not accrued as liabilities on the department's financial statements in prior years as required by Montana Operations Manual, Chapter 2-1400. Such costs were fully accrued at June 30, 1979 and 1980.

3. <u>GAIN OR LOSS ON SALE OF EQUIPMENT</u>

For the fiscal years ending June 30, 1979 and 1980 the

gain or loss on the sale of Motor Pool and Equipment Bureau equipment was reported on the income statement as non-operating revenues.

In prior reporting periods the gains and loss were reported as an increase or decrease to the depreciation expense.

4. RETIREMENT PLAN

The department participates in the Public Employees' Retirement System, a contributory plan which covers public employees in the state. The state contributes 6.2 percent of an employee's gross wages and the employee contributes 6 percent of his gross wages to the plan. The department incurred pension costs of $1,876,486 during the 1978-79 fiscal year, and $1,971,447 during 1979-80. At June 30, 1980 the Public Employee's Retirement System was actuarially sound according to a report by the System's actuary. The unfunded past service costs and the actuarially computed value of vested benefits were not readily available for members of the plans employed by the agency in fiscal year 1978-79 and 1979-80.

5. INTERNAL SERVICES RECHARGES

Costs for providing certain internal services to the entire agency (i.e., data processing) are accumulated in a special holding account. The divisions are billed for the services at fixed rates. The difference between costs and amounts billed is closed to expenditures at year end and is used as a basis for modifying the billing rates to be charged the following year. Effective July 1, 1980, accounting for these internal service activities were segregated into a revolving fund.

6. PAYROLL OVERHEAD

Assigned payroll overhead costs are accumulated and charged to projects at a fixed rate throughout the year. The difference between the assigned costs and actual costs incurred is closed to expenditures at year end. This difference is used as a basis for modifying the overhead rate to be charged the following year.

7. INTER-FUND LOANS RECEIVABLE AND PAYABLE

As reported on the Balance Sheet, this is the total of loans from the Earmarked Revenue Fund to other department funds, as follows:

	June 30, 1980
Federal and Private Revenue Fund	$29,974,486
Motor Pool Revolving Fund	82,693
	$30,057,179

The loan to the Motor Pool Fund was for the purpose of acquiring and improving the Motor Pool facility in Helena. This loan is being repaid at the rate of ½ cent per mile of motor pool vehicle usuage.

The loan to the Federal and Private Revenue Fund was a working capital advance. Part of this loan will be paid back as modifications and agreements are established with FHWA for overruns and nonagreements. However, a substantial working capital loan will be permanent.

8. LONG TERM DEBT

The department occupied its new building in 1978. The building asset and long term debt is accounted for by the Department of Highways and

included in the department's financial statements. The department is scheduled to make an annual payment from the Highway Earmarked Revenue Fund to the Bond Sinking Fund of approximately $600,000. The final bond payment will be due on April 1, 1996. The department made an annual payment from the Highway Earmarked Revenue Fund to the Bond Sinking Fund of $548,000 during fiscal year 1978-79. No payment was required during fiscal year 1979-80 due to an accumulation of interest earnings and excess payments into the Sinking Fund.

9. TRANSFERS TO OTHER AGENCIES

The Highway Earmarked Revenue Fund expense account "Transfers to Other Agencies" is the total of highway earmarked revenues expended by the following State Departments.

Department	1979	1980	Purpose
Department of Justice	$ 3,704,397	$ 7,457,474	Highway Patrol
Department of Community Affairs	147,708	54,142	Highway Safety
Department of Revenue	441,093	888,987	Gas Tax Collection Expense
Department of Administration	6,575,000	7,242,115	Distribution of Gas tax to cities & counties
	$10,868,198	$15,642,718	

10. CITY-COUNTY EXPENDITURES

Included in the Highway Earmarked Revenue Fund construction expenditures are distributions to cities and counties for their share of certain local project costs. These expenditures amounted to $162,588 in fiscal year 1978-79 and $70,999 in fiscal year 1979-80.

11. INVESTMENTS

As of June 30, 1980 the Woodville Highway Replacement Fund had 1,761

units of Short Term Investment Pool for a total investment of $1,767,599. Market value approximated the investment cost at June 30, 1980.

12. ACCOUNTS RECEIVABLE RECEIPTS

Accounts Receivable Receipts are revenues received in payment of accounts receivable which entail charges made to cities, counties, and federal and state agencies for the sale of services and materials, and for costs incurred in repairing damages to highway property caused by the traveling public. Accounts Receivable Expense are the costs incurred relating to these items.

13. ACCOUNTS RECEIVABLE

Accounts Receivable in the Federal and Private Revenue Fund represent amounts due from the Federal Government for the federal share of highway construction costs. The balances include non-agreements and overruns in the amount of $8,578,096 at June 30, 1979, and $11,083,071 at June 30, 1980. Non-agreements are projects for which federal agreements have not been consumated. Overruns are projects for which costs exceeded federal approved participation amounts and federal approval for supplemental participation is in the process of being obtained.

14. CONTINGENT LIABILITIES

(a) A possibility exists that various highway construction contractors will file a lawsuit against the department seeking additional payments on their respective contracts. The amount of this possible liability is undeterminable.

(b) State law requires that all proceeds from the sale of department property be deposited in the Earmarked Revenue Fund. However, it is the

department's position that receipts from the sale of Motor Pool and Equipment Bureau equipment should be deposited to these respective funds. The department intends to introduce legislation to allow these monies to be transferred from the Earmarked Revenue Fund. The liability due the Motor Pool amounts to $42,356 and $260,135 to the Equipment Bureau.

15. BUDGET INFORMATION

The department utilizes a fixed annual basis of budgeting. Under the fixed annual method, appropriations of specific dollar amount are set for each fiscal year of a biennium by the legislature. Appropriations control the department's financial operations during each fiscal year. At the end of each year, the department's Earmarked Revenue Fund, Federal and Private Revenue Fund and Revolving Fund appropriations revert to the fund of original appropriation. The reverted appropriation may be used in the subsequent year as authorization for valid prior year obligations.

Budget amendments represent the authorization to spend funds not available for consideration by the legislature but available from other sources other than the general fund or federal revenue sharing monies. The 1979 legislature restricted the use of budget amendments in the earmarked revenue fund. Earmarked revenue fund budget amendments may only be approved if an emergency justifies the expenditure.

The department's appropriations are allocated by the following programs:

1) General Operations
2) Construction
3) Maintenance
4) Travel Promotion
5) Preconstruction
6) Motor Pool
7) Equipment Bureau
8) Building Bond Sinking

MONTANA DEPARTMENT OF HIGHWAYS
COMBINING SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR FISCAL YEAR ENDED JUNE 30, 1979

	BALANCE JULY 1, 1978	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 1979
GVW HOLDING ACCOUNT				
ASSETS				
Cash	$ 480,578.74	$ 7,896,171.87	$ 7,784,820.21	$ 591,930.40
Accounts Receivable- Dishonored Checks	340.72	15,771.12	16,093.47	18.37
Total Assets	$ 480,919.46	$ 7,911,942.99	$ 7,800,913.68	$ 591,948.77
LIABILITIES				
Fees & Taxes Payable to Montana Counties	$ 442,169.31	$ 2,620,822.69	$ 2,474,444.55	$ 588,547.45
Undistributed Receipts	38,750.15	7,865,962.86	7,901,311.69	3,401.32
Total Liabilities	$ 480,919.46	$10,486,785.55	$10,375,756.24	$ 591,948.77
WOODVILLE HIGHWAY REPLACEMENT				
ASSETS				
Cash	$ 776.79	$ 329,282.92	$ 329,118.32	$ 941.39
Investments	1,840,430.21	147,460.28	185,284.32	1,802,606.17
Total Assets	$1,841,207.00	$ 476,743.20	$ 514,402.64	$1,803,547.56
LIABILITIES				
Due to Woodville Projects	$1,841,207.00		$ 37,659.44	$1,803,547.56

MONTANA DEPARTMENT OF HIGHWAYS
COMBINING SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR FISCAL YEAR ENDED JUNE 30, 1980

	BALANCE JULY 1, 1979	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 1980
GVW HOLDING ACCOUNT				
ASSETS				
Cash	$ 591,930.40	$11,009,087.93	$11,038,502.25	$ 562,516.08
Accounts Receivable- Dishonored Checks	18.37	12,423.82	10,766.72	1,675.47
Total Assets	$ 591,948.77	$11,021,511.75	$11,049,268.97	$ 564,191.55
LIABILITIES				
Fees & Taxes Payable to Montana Counties	$ 588,547.45	$ 4,535,045.97	$ 4,561,563.63	$ 562,029.79
License Fees Payable to St. Trea.	- 0 -	21,076.00	18,797.00	2,279.00
Undistributed Receipts	3,401.32	10,982,331.24	10,985,849.80	(117.24)
Total Liabilities	$ 591,948.77	$15,538,453.21	$15,566,210.43	$ 564,191.55
WOODVILLE HIGHWAY REPLACEMENT				
ASSETS				
Cash	$ 941.39	$ 360,102.72	$ 360,518.49	525.62
Investments	1,802,606.17	165,700.94	200,708.31	1,767,598.80
Total Assets	$ 1,803,547.56	$ 525,803.66	$ 561,226.80	1,768,124.42
LIABILITIES				
Due to Woodville Projects	$ 1,803,547.56	$ 3,064.90	$ 38,488.04	1,768,124.42

UNAUDITE

UNAUDITED

	Earmarked			…u Revolving		Totals Memorandum Only		
	Budget	Actual	Var Fav (Unfa	…al	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:								
Licenses & Permits	$ 1,924,000	$ 2,306,457	$			$ 1,924,000	$ 2,306,457	$ 382,457
Taxes	8,600,000	14,827,234	6,			8,600,000	14,827,234	6,227,234
Sale of Doc., Merch. & Property	175,000	500,393		066	$ (33,934)	437,000	678,459	241,459
Rentals, Leases & Royal.	35,000	51,661				35,000	51,661	16,661
Miscellaneous	700,000	759,005		504	37,004	752,500	970,617	218,117
Income, Collections, & Transfers	4,000,000	30,617	(3,	918	692,918	10,446,600	7,031,679	(3,414,921)
Federal Assistance	2,680,000	2,821,194				67,680,000	79,213,820	11,533,820
Total Revenues	$18,114,000	$21,296,561	$ 3,	488	$ 695,988	$ 89,875,100	$105,079,927	$15,204,827
Expenditures:								
General Operations	$ 4,877,893	$ 4,624,635	$			$ 6,792,293	$ 6,538,276	$ 254,017
Construction	26,773,757	20,404,475	6,			97,405,593	84,181,967	13,223,626
Maintenance	25,738,557	25,390,407				25,738,557	25,390,407	348,150
Travel Promotion	659,963	656,909				659,963	656,909	3,054
Preconstruction	3,907,109	3,548,022				11,923,258	11,541,294	381,964
Motor Pool						665,917	599,726	66,191
Equipment Bureau	1,606,125	1,160,439		478	$ 303,790	8,238,393	7,488,917	749,476
Bldg. Bond Sinking	604,185	555,763				604,185	555,763	48,422
Total Expend.	$64,167,589	$56,340,650	$ 7,	478	$ 303,790	$152,028,159	$136,953,259	$15,074,900
Excess Revenues Over (Under) Expenditures:	$(46,053,589)	$(35,044,089)	$11,	010	$ 999,778	$(62,153,059)	$(31,873,332)	$30,279,727
Other Financing Sources (Uses):								
Prior Year Adj.	$ (348,267)	$ (348,267)	$	974	$ -0-	$ (496,709)	$ (496,709)	$ -0-
Transfers In	48,008,364	48,008,364				52,170,547	52,170,547	-0-
Transfers Out	(11,417,925)	(11,417,925)				(11,417,925)	(11,417,925)	-0-
Excess Revenues Over (Under) Expenditures and Other Sources (Uses):	$(9,811,417)	$ 1,198,083	$11,	984	$ 999,778	$(21,897,146)	$ 8,382,581	$30,279,727
Fund Balance-July 1, 1978	20,113,377	20,113,377		882		35,549,088	35,549,088	
Fund Balance-June 30, 1979	$10,301,960	$21,311,460	$11,	866	$ 999,778	$ 13,651,942	$ 43,931,669	$30,279,727

NOTE: This schedule, unlike the other statements and sche…
records. The other statements and schedules present…
The amounts on this schedule are materially in…
from the Department's accounting records, because n…
2) the basis of accounting for the revolving funds, …
4) timing differences and financial statement adju…

UNAUDITED

Montana Department of Highways
Combined Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
All Fund Types
For the Fiscal Year Ended June 30, 1979

UNAUDITED

Governmental Fund Types — Special Revenue Funds

	Earmarked			Coal Area Earmarked			Federal and Private		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:									
Licenses & Permits	$ 1,924,000	$ 2,306,457	$ 382,457						
Taxes	8,600,000	14,827,234	6,227,234						
Sale of Doc., Merch. & Property	175,000	500,393	325,393						
Rentals, Leases & Royal.	35,000	51,661	16,661						
Miscellaneous	700,000	759,005	59,005				$ 20,000	$ 145,126	$ 126,126
Income, Collections, & Transfers	4,000,000	30,617	(3,969,383)						
Federal Assistance	2,680,000	2,821,194	141,194				65,000,000	76,392,626	11,392,626
Total Revenues	$18,114,000	$21,296,561	$ 3,182,561				$65,020,000	$76,538,752	$11,518,752
Expenditures:									
General Operations	$ 4,877,893	$ 4,624,635	$ 253,258				$ 1,914,400	$ 1,913,641	$ 759
Construction	26,773,757	20,404,475	6,369,282	$ 5,908,195	$ -0-	$ 5,908,195	64,723,641	63,777,492	946,149
Maintenance	25,738,557	25,390,407	348,150						
Travel Promotion	659,963	656,909	3,054						
Preconstruction	3,907,109	3,548,022	359,087				8,016,149	7,993,272	22,877
Motor Pool									
Equipment Bureau	1,606,125	1,160,439	445,686						
Bldg. Bond Sinking	604,185	555,763	48,422						
Total Expend.	$64,167,589	$56,340,650	$ 7,826,939	$ 5,908,195	$ -0-	$ 5,908,195	$74,654,190	$73,684,405	$ 969,785
Excess Revenues Over (Under) Expenditures:	$(46,053,589)	$(35,044,089)	$11,009,500	$(5,908,195)	$ -0-	$ 5,908,195	$(9,634,190)	$ 2,854,347	$12,488,537
Other Financing Sources (Uses):									
Prior Year Adj.	$ (348,267)	$ (348,267)	$ -0-				$ (154,790)	$ (154,790)	$ -0-
Transfers In	48,008,364	48,008,364	-0-	$ 4,162,183	$ 4,162,183	$ -0-			
Transfers Out	(11,417,925)	(11,417,925)	-0-						
Excess Revenues Over (Under) Expenditures and Other Sources (Uses):	$(9,811,417)	$ 1,198,083	$11,009,500	$(1,746,012)	$ 4,162,183	$ 5,908,195	$(9,788,980)	$ 2,699,557	$12,488,537
Fund Balance-July 1, 1978	20,113,377	20,113,377		9,168,301	9,168,301		5,958,076	5,958,076	
Fund Balance-June 30, 1979	$10,301,960	$21,311,460	$11,009,500	$ 7,422,289	$13,330,484	$ 5,908,195	$(3,830,904)	$ 8,657,633	$12,488,537

Proprietary Fund Types — Internal Service Funds; Totals — Memorandum Only

	Motor Pool Revolving			Equipment Bureau Revolving			Totals (Memorandum Only)		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:									
Licenses & Permits							$ 1,924,000	$ 2,306,457	$ 382,457
Taxes							8,600,000	14,827,234	6,227,234
Sale of Doc., Merch. & Property	$ 50,000		$ (50,000)	$ 212,000	$ 178,066	$ (33,934)	437,000	678,459	241,459
Rentals, Leases & Royal.							35,000	51,661	16,661
Miscellaneous	6,000	$ 1,982	(4,018)	26,500	63,504	37,004	752,500	970,617	218,117
Income, Collections, & Transfers	635,600	497,144	(138,456)	5,811,000	6,503,918	692,918	10,446,600	7,031,679	(3,414,921)
Federal Assistance							67,680,000	79,213,820	11,533,820
Total Revenues	$ 691,600	$ 499,126	$(192,474)	$6,049,500	$6,745,488	$ 695,988	$ 89,875,100	$105,079,927	$15,204,827
Expenditures:									
General Operations							$ 6,792,293	$ 6,538,276	$ 254,017
Construction							97,405,593	84,181,967	13,223,626
Maintenance							25,738,557	25,390,407	348,150
Travel Promotion							659,963	656,909	3,054
Preconstruction							11,923,258	11,541,294	381,964
Motor Pool	$ 565,917	$ 599,726	$ 66,191				665,917	599,726	66,191
Equipment Bureau				$6,632,268	$6,328,478	$ 303,790	8,238,393	7,488,917	749,476
Bldg. Bond Sinking							604,185	555,763	48,422
Total Expend.	$ 665,917	$ 599,726	$ 66,191	$6,632,268	$6,328,478	$ 303,790	$152,028,159	$136,953,259	$15,074,900
Excess Revenues Over (Under) Expenditures:	$ 25,683	$(100,600)	$(126,283)	$ (582,768)	$ 417,010	$ 999,778	$(62,153,059)	$(31,873,332)	$30,279,727
Other Financing Sources (Uses):									
Prior Year Adj.	$ 374	$ 374	$ -0-	$ 5,974	$ 5,974	$ -0-	$ (496,709)	$ (496,709)	$ -0-
Transfers In							52,170,547	52,170,547	-0-
Transfers Out							(11,417,925)	(11,417,925)	-0-
Excess Revenues Over (Under) Expenditures and Other Sources (Uses):	$ 26,057	$(100,226)	$(126,283)	$ (576,794)	$ 422,984	$ 999,778	$(21,897,146)	$ 8,382,581	$30,279,727
Fund Balance-July 1, 1978	(137,548)	(137,548)		446,882	446,882		35,549,088	35,549,088	
Fund Balance-June 30, 1979	$(111,491)	$(237,774)	$(126,283)	$ (129,912)	$ 869,866	$ 999,778	$ 13,651,942	$ 43,931,669	$30,279,727

NOTE: This schedule, unlike the other statements and schedules presented, is prepared from the Statewide Budgeting and Accounting System (SBAS) records. The other statements and schedules presented are prepared from the Department of Highways' primary accounting system.
The amounts on this schedule are materially inconsistent with the amounts presented on the other statements and schedules prepared from the Department's accounting records, because of 1) the method for recording revenues, transfers and prior year adjustment items, 2) the basis of accounting for the revolving funds, 3) the method of recording capital expenditures in the revolving funds and 4) timing differences and financial statement adjustments made on the Department's accounting records and not on SBAS.

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	Earmarked Budget	Earmarked Actual	Earmarked Varian Favora (Unfavor		Revolving Variance Favcrable (Unfavorable)	Totals Memorandum Only Budget	Totals Memorandum Only Actual	Totals Memorandum Only Variance Favorable (Unfavorable)
Revenues:								
Licenses & Permits	$ 2,972,000	$ 2,935,928	$ (36			$ 2,972,000	$ 2,935,928	$ (36,072)
Taxes	16,013,413	15,717,601	(295			16,013,413	15,717,601	(295,812)
Sale of Doc., Merch. & Property	200,000	72,316	(127	0	$ (213,080)	478,000	87,486	(390,514)
Rentals, Leases & Royal.	40,000	38,611	(1			40,000	38,611	(1,389)
Miscellaneous	750,000	2,274,003	1,524	0	56,190	806,000	2,929,188	2,123,188
Income, Collections, & Transfers		20,816	20	4	91,844	9,430,210	9,690,662	260,452
Federal Assistance	2,880,000	3,087,744	207			132,986,000	135,796,500	2,810,500
Total Revenues	$ 22,855,413	$ 24,147,019	$ 1,291	4	$ (65,046)	$162,725,623	$167,195,976	$ 4,470,353
Expenditures:								
General Operations	$ 5,297,774	$ 5,272,722	$ 25			$ 6,930,473	$ 6,880,299	$ 50,174
Construction	29,709,938	25,531,401	4,178			158,821,478	133,050,832	25,770,646
Maintenance	30,107,186	30,096,173	11			30,377,182	30,189,637	187,545
Travel Promotion	606,935	590,350	16			606,935	590,350	16,585
Preconstruction	3,308,455	2,961,372	347			13,671,089	12,284,071	1,387,018
Motor Pool						757,808	753,108	4,700
Equipment Bureau	900,000	881,721	18	7	$ 412,594	8,365,981	7,935,108	430,873
Bldg. Bond Sinking	617,802		617			617,802		617,802
Total Expend.	$ 70,548,090	$ 65,333,739	$ 5,214	87	$ 412,594	$220,148,748	$191,683,405	$28,465,343
Excess Revenues Over (Under) Expenditures:	$(47,692,677)	$(41,186,720)	$ 6,50	77	$ 347,548	$(57,423,125)	$(24,487,429)	$32,935,696
Other Financing Sources and (Uses):								
Prior Year Adj.	$ (514,275)	$ (514,275)	$	03)	$ -0-	$ (1,968,849)	$ (1,968,849)	$ -0-
Transfers In	50,108,777	50,108,777				51,395,484	51,895,484	-0-
Transfers Out	(16,539,196)	(16,539,196)				(16,539,196)	(16,539,196)	-0-
Excess Revenues Over (Under) Expenditures and Other Sources (Uses):	$(14,637,371)	$ (8,131,414)	$ 6,50	74	$ 347,548	$(24,035,686)	$ 8,900,010	$32,935,696
Fund Balance-July 1, 1979	21,311,460	21,311,460		66		43,931,669	43,931,669	
Adjustment to Fund Balance	39,762,180	39,762,180		87)		9,505,990	9,505,990	
Fund Balance-June 30, 1980	$ 46,436,269	$ 52,942,226	$ 6,50	47)	$ 347,548	$ 29,401,973	$ 62,337,669	$32,935,696

NOTE: This schedule, unlike the other statements and schedu
records. The other statements and schedules presente
The amounts on this schedule are materially inco
from the Department's accounting records, because of
2) the basis of accounting for the revolving funds,
4) timing differences and financial statement adjust
The adjustments to the Fund Balance represent th
to the SBAS system.

UNAUDITED

Montana Department of Highways
Combined Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
All Fund Types
For the Fiscal Year Ended June 30, 1980

UNAUDITED

	Governmental Fund Types — Special Revenue Funds									Proprietary Fund Types — Internal Service Funds						Totals — Memorandum Only		
	Earmarked			Coal Area Earmarked			Federal and Private			Motor Pool Revolving			Equipment Bureau Revolving					
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:																		
Licenses & Permits	$ 2,972,000	$ 2,935,928	$ (36,072)													$ 2,972,000	$ 2,935,928	$ (36,072)
Taxes	16,013,413	15,717,601	(295,812)													16,013,413	15,717,601	(295,812)
Sale of Doc., Merch. & Property	200,000	72,316	(127,684)							$ 53,000	$ 3,250	$ (49,750)	$ 225,000	$ 11,920	$ (213,080)	478,000	87,486	(390,514)
Rentals, Leases & Royal.	40,000	38,611	(1,389)													40,000	38,611	(1,389)
Miscellaneous	750,000	2,274,003	1,524,003				$ 21,000	$ 563,848	$ 542,848	7,000	7,147	147	28,000	84,190	56,190	806,000	2,929,188	2,123,188
Income, Collections, & Transfers		20,816	20,816							780,000	927,792	147,792	8,650,210	8,742,054	91,844	9,430,210	9,690,662	260,452
Federal Assistance	2,880,000	3,087,744	207,744				130,106,000	132,708,756	2,602,756							132,986,000	135,796,500	2,810,500
Total Revenues	$ 22,855,413	$ 24,147,019	$ 1,291,606				$130,127,000	$133,272,604	$ 3,145,604	$ 840,000	$ 938,189	$ 98,189	$ 8,903,210	$ 8,838,164	$ (65,046)	$162,725,623	$167,195,976	$ 4,470,353
Expenditures:																		
General Operations	$ 5,297,774	$ 5,272,722	$ 25,052				$ 1,632,699	$ 1,607,577	$ 25,122							$ 6,930,473	$ 6,880,299	$ 50,174
Construction	29,709,938	25,531,401	4,178,537	$11,561,550	$ -0-	$11,561,550	117,549,990	107,519,431	10,030,559							158,821,478	133,050,832	25,770,646
Maintenance	30,107,186	30,096,173	11,013				269,996	93,464	176,532							30,377,182	30,189,637	187,545
Travel Promotion	606,935	590,350	16,585													606,935	590,350	16,585
Preconstruction	3,308,455	2,961,372	347,083				10,362,634	9,322,699	1,039,935							13,671,089	12,284,071	1,387,018
Motor Pool										$ 757,808	$ 753,108	$ 4,700				757,808	753,108	4,700
Equipment Bureau	900,000	881,721	18,279										$ 7,465,981	$ 7,053,387	$ 412,594	8,365,981	7,935,108	430,873
Bldg. Bond Sinking	617,802		617,802													617,802		617,802
Total Expend.	$ 70,548,090	$ 65,333,739	$ 5,214,351	$11,561,550	$ -0-	$11,561,550	$129,815,319	$118,543,171	$11,272,148	$ 757,808	$ 753,108	$ 4,700	$ 7,465,981	$ 7,053,387	$ 412,594	$220,148,748	$191,683,405	$28,465,343
Excess Revenues Over (Under) Expenditures:	$(47,692,677)	$(41,186,720)	$ 6,505,957	$(11,561,550)	$ -0-	$11,561,550	$ 311,681	$ 14,729,433	$14,417,752	$ 82,192	$ 185,081	$ 102,889	$ 1,437,229	$ 1,784,777	$ 347,548	$(57,423,125)	$(24,487,429)	$32,935,696
Other Financing Sources and (Uses):																		
Prior Year Adj.	$ (514,275)	$ (514,275)	$ -0-				$ (959,385)	$ (959,385)	$ -0-	$ (35,286)	$ (35,286)	$ -0-	$ (459,903)	$ (459,903)	$ -0-	$ (1,968,849)	$ (1,968,849)	$ -0-
Transfers In	50,108,777	50,108,777	-0-	$ 1,786,707	$ 1,786,707	$ -0-										51,395,484	51,895,484	-0-
Transfers Out	(16,539,196)	(16,539,196)	-0-													(16,539,196)	(16,539,196)	-0-
Excess Revenues Over (Under) Expenditures and Other Sources (Uses):	$(14,637,371)	$ (8,131,414)	$ 6,505,957	$(9,774,843)	$ 1,786,707	$11,561,550	$ (647,704)	$ 13,770,048	$14,417,752	$ 46,906	$ 149,795	$ 102,889	$ 977,326	$ 1,324,874	$ 347,548	$(24,035,686)	$ 8,900,010	$32,935,696
Fund Balance-July 1, 1979	21,311,460	21,311,460		13,330,484	13,330,484	-0-	8,657,633	8,657,633		(237,774)	(237,774)		869,866	869,866		43,931,669	43,931,669	
Adjustment to Fund Balance	39,762,180	39,762,180					(20,152,280)	(20,152,280)		(608,623)	(608,623)		(9,495,287)	(9,495,287)		9,505,990	9,505,990	
Fund Balance-June 30, 1980	$ 46,436,269	$ 52,942,226	$ 6,505,957	$ 3,555,641	$15,117,191	$11,561,550	$(12,142,351)	$ 2,275,401	$14,417,752	$(799,491)	$(696,602)	$ 102,889	$(7,648,095)	$(7,300,547)	$ 347,548	$ 29,401,973	$ 62,337,669	$32,935,696

NOTE: This schedule, unlike the other statements and schedules presented, is prepared from the Statewide Budgeting and Accounting System (SBAS) records. The other statements and schedules presented are prepared from the Department of Highways' primary accounting system.

The amounts on this schedule are materially inconsistent with the amounts presented on the other statements and schedules prepared from the Department's accounting records, because of 1) the method for recording revenues, transfers and prior year adjustment items, 2) the basis of accounting for the revolving funds, 3) the method of recording capital expenditures in the revolving funds and 4) timing differences and financial statement adjustments made on the Department's accounting records and not on SBAS.

The adjustments to the Fund Balance represent the addition of fixed assets, loans payable, accounts receivable and stores inventories to the SBAS system.

AGENCY REPLIES

DEPARTMENT OF HIGHWAYS

TED SCHWINDEN, GOVERNOR
[redacted]

STATE OF MONTANA

February 6, 1981

RECEIVED
FEB 10 1981
MONTANA LEGISLATIVE AUDITOR

Mr. James Gillett
Acting Legislative Auditor
Office of Legislative Auditor
State Capitol
Helena, Montana 59601

Dear Mr. Gillett:

Attached are the Department's responses to recommendations listed in your audit of this agency.

If there are further questions to be answered, please advise.

Sincerely,

Gary J. Wicks

Gary J. Wicks
Director of Highways

GJW:JLP:lfg
attachment

RECOMMENDATION #1

We recommend the Department implement procedures to promptly amend or obtain agreements for federal aid projects in overrun or non-agreement status.

Response:

The Project Control office has dedicated one employee to monitor all project activity and a portion of the duties of that position require preparation of necessary documents to FHWA in order to avoid project overruns or non-agreements. Since the audit was taken, we have reduced the amount of these overruns and non-agreements by approximately $5,000,000. Considerable paperwork is needed in order to receive Federal approval of these projects and we have additional documents in the FHWA office which, after approval, will further reduce the amount by approximately $1,500,000.

The Department has adopted a policy when initially requesting Federal approval of a project that the project be immediately placed under agreement status therefore eliminating the non-agreement problem on future projects. The Department has also adopted a policy of reserving a portion of the yearly Federal obligational authority in order to have amounts available to modify existing project agreements whenever costs overrun the original agreement amount. Through this policy the Department should eliminate project overruns. However, it must be understood that overruns could result and not be corrected immediately, if FHWA reverts to practices of impoundment or freezing obligational authority, whereby obligational authority is withdrawn for that particular year.

RECOMMENDATION #2

We Recommend the Department:

A. Seek legislation to allocate financial district funds based on obligational authority rather than actual expenditures.

B. Comply with state law by seeking legislative direction for metropolitan transportation area funding allocations.

C. Seek legislation for clarification of the financial district laws for rural area allocations.

Response:

A. House Bill 322 has been introduced into this legislative session which, if passed, will implement this recommendation.

B&C. Since it is too late to introduce legislation this year, we will prepare legislation to be introduced into the next session to implement these recommendations.

RECOMMENDATION #3

We recommend the Department seek legislation to allow distribution of the re-

maining City/County construction moneys.

Response:

We will request legislative authority at our budget hearings during this legislative session to implement this recommendation.

RECOMMENDATION #4

We recommend the Department eliminate contractor prequalification requirements.

Response:

We do not concur with this recommendation. The purpose of the prequalification system is to attempt to prevent contractors from contracting for work which may be beyond their capabilities. Over the years the Montana Contractors Association has informed the Department of their acceptance of the system and request its continuance. Nearly all states have a prequalification procedure and responses from those states indicate acceptance of the process. Considerable costs are incurred by the Department whenever a contractor is unable to fulfill a contract. By this prequalification process, we feel we have kept the uncompleted contracts to a bare minimum. The cost incurred by the Department is minimal compared to the total construction program and benefits derived.

RECOMMENDATION #5

We recommend the Department of Administration develop appropriation control of asset accounts on SBAS.

Response:

We will inform the Department of Administration of this recommendation.

RECOMMENDATION #6

We recommend the Department:

A. Accrue expenditures and revenues in accordance with generally accepted accounting principles.

B. Record the Department headquarters building and corresponding bonds payable on its accounting records.

Response:

A. This recommendation will be implemented. This recommendation would have been implemented this past year had the Legislative Auditor's office notified the Department of our incorrect interpretation of the law after the last audit.

B. This recommendation will be implemented. The firm of Ernst and Ernst, in it's audit of the Department's records four years ago,

recommended we remove these same items from our books as it was not the Highway's obligation to have them recorded on our books. Their contention was the bond indebtedness was a State obligation and not a Highway obligation. We complied and removed all new headquarters building and bond amounts from Highway books. We now will record them on SBAS as Highway assets and liabilities.

RECOMMENDATION #7

We recommend the Department recognize disaster costs in the proper fund as they are incurred.

Response:

We will implement this recommendation. In past years we have recorded disaster expenses in the earmarked account and then transferred them to the Federal and Private Account awaiting Federal approval for reimbursement. We will change our procedures and not transfer to the Federal and Private Account.

RECOMMENDATION #8

We recommend the Department:

A. Establish procedures for a quarterly or bimonthly review of rental rates to ensure cost recovery and mathematical accuracy.

B. Calculate rental rate charges recovering prior gains and/or losses on a per class basis.

Response:

We concur with this recommendation and have taken steps to continually review rental rates. Procedures will be written into the accounting manual incorporating these recommendations.

Rental rates were developed for the 1981 fiscal year which recover prior year gains and losses by class of vehicle, as recommended in this audit report, and such rates were in use as of July 1, 1981.

RECOMMENDATION #9

We recommend the Department document procedures for rental rate calculations, mileage utilization standards, and assignment criteria for leased vehicles.

Response:

We will prepare written documentation to implement this recommendation and will incorporate the procedures into the accounting manual.

RECOMMENDATION #10

We recommend the Department review alternatives for financing new motor pool vehicle purchases.

Response:

We have reviewed alternatives to fund replacement cost for motor pool vehicles and have concluded the general fund approach most practical.

Since the motor pool services all agencies, we feel that the general fund should supply the necessary vehicle replacement cost needed to continue the motor pool.

It should be noted the auditor expended considerable amount of time to find a solution, and since no recommendation was made, evidently no better solution was available.

RECOMMENDATION #11

We recommend the Department:

A. Reorganize the Equipment Bureau as part of the Maintenance Division.

B. Transfer Equipment Bureau equipment to the appropriate users.

Response:

These recommendations will be taken under advisement. We will study responses on this subject by FHWA Manangement Review, Legislative Fiscal Analysts' Review, this audit, and will perform an in-depth review of the Equipment Bureau operations before committing to implementing this recommendation.

RECOMMENDATION #12

We recommend the Department seek specific legislative authorization for continuation and/or expansion of the van pool program.

Response:

We will request specific budgetary approval for van pool operation during our budget hearings during this session of the legislature.

RECOMMENDATION #13

We recommend the Department strengthen its inventory procedures.

Response :

We will implement this recommendation.

RECOMMENDATION #14

We recommend the Department:

A. Eliminate inventory stock items below a certain dollar value from their inventory reporting system.

B. Allocate the cost of expendable supplies with a low unit cost directly to various construction and maintenance projects.

Response:

Our inventory process is fully computerized and it has been our feeling that very little additional cost was associated by accounting for all items on inventory versus only a portion of the inventory.

Some of our items with low cost per unit make up a significant portion of our inventory. We presently are reducing the quantity of inventoried items and through this reduction will endeavor to eliminate as many low cost items as possible from being on the shelf.

We have conversed with the Federal auditors on allocating costs to projects and they will accept a reasonable allocation if one can be developed. We will work in cooperation with the Federal auditors in determining a proper method. If a method cannot be developed, we will continue to charge on an actual cost basis for inventoried items.

RECOMMENDATION #15

We recommend the Department establish policies to account for reusable inventory items.

Response:

We will implement this recommendation. We would appreciate receiving a management letter from the auditors on their recommendations for recording reused inventory items.

RECOMMENDATION #16

We recommend the Department periodically evaluate the adequacy of the allowance for doubtful accounts for all funds.

Response:

We will implement this recommendation.

RECOMMENDATION #17

We recommend the Department comply with the state laws discussed above or seek changes in the state law.

Response:

The Department has provided price lists to the counties for many years for their use in collecting new vehicle sales tax. We initiated a review of price problems in September, 1979 due to numerous price increases during the past few years as well as the difficulty in obtaining all increases. We issued new instructions to the counties, effective November 1, 1980, that established the tax on the manufacturers' suggested retail or list price. This procedure eliminates the need to publish price lists for each and every change.

Unless legislation is enacted giving enforcement and control authority to the Department, over the counties, we will be unable to insure

that counties follow established procedures in collecting this tax.

This provision of the law to keep certain weigh stations open 24 hours has been overlooked and we will either seek budgetary authority to comply or request repeal of the statute. This legislation will be presented to the 1983 legislative session.

RECOMMENDATION #18

We recommend the Department implement procedures to correct the internal control weaknesses listed as follows:

1) The Department's procedures manual does not require equipment usage documents to be reviewed and approved by a supervisor at the division level before being processed by accounting.

2) As noted in a prior aduit report, payroll cover sheets and individual time sheets are not always approved by a supervisor.

3) There is not a proper separation of duties between the payroll and personnel units. We noted that payroll clerks sign payroll status and termination forms. We also noted that not all payroll status forms were available for testing in the employee personnel files maintained by the Personnel Division.

4) The Department had inadequate access controls over payroll and inventory data processing terminals. Controls such as user identification numbers, passwords and a system log-on/off should be established.

Response:

The four recommendations will be implemented.

RECOMMENDATION #19

We recommend the Department:

A. Write stockpile leases for more than one year if possible.

B. Fully utilize warranties for all vehicles purchased.

Response:

A. We will make positive efforts in obtaining longer stockpile leases where we are certain of needing the lease for more than one year. It must be understood that certain landowners refuse to enter into agreements for more than one year.

B. Due to the method of purchasing vehicles or equipment once a year, it is necessary to retain certain high use vehicles for emergency replacement. In order to fully utilize the manufacturer's warranty, we will include a provision in the bid specifications that warrantees will not commence until the vehicle and/or equipment have actually been put into service. We will notify the manufacturer by certified letter when we put the vehicle or equipment into service.

In the past we have retained vehicles or equipment beyond warranty period and in all cases have had defects corrected on the warranty. This was possible as we have had verbal agreement with dealers to provide this coverage.

DEPARTMENT OF ADMINISTRATION
DIRECTOR'S OFFICE

TED SCHWINDEN, GOVERNOR

MITCHELL BUILDING

STATE OF MONTANA

(406) 449-2032

HELENA, MONTANA 59620

February 5, 1981

Mr. James Gillett
Acting Legislative Auditor
State Capitol
Helena, Montana 59601

Dear Jim:

In response to your request, the Department of Administration submits the following comments to your recommendation #5 concerning the audit of the Department of Highways.

<u>Recommendation #5</u>

We recommend the Department of Administration develop appropriation control of asset accounts on SBAS.

Response:

We concur.

Sincerely,

Morris

Morris L. Brusett
Director

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MONTANA LEGISLATIVE AUDITOR